Adam Smith Essay, Research Paper

The purpose of this report is to educate the reader on a great man, the “Father of Economics”, Adam Smith. His two unequal works, Theory of moral Sentiments and An Inquiry into the Nature and Causes of the Wealth of Nations laid the groundwork for several economists today. His concepts, such as the “invisible hand” and opinions are widely respected and integral to economic theory three centuries later.

Adam Smith was born the son of the comptroller of customs at Kirkcaldy, Fife, Scotland in 1723, his father dying six months earlier (Lucidcafe, 2000). He studied at Glasgow University, then Oxford before moving on to deliver public lectures (Faber, 1999). In 1751 Smith was made a professor of Logic at Glasgow University, then was promoted to the Chair of Logic, a post held until 1763, which he relinquished to become a tutor to the Duke of Buccleuch in France during 1764-66 (Smith, 2001). Upon return, Smith is elected a Fellow of the Royal Society. In 1776 Smith published the Wealth of Nations; seven years later becoming a founding member of the Royal Society of Edinburgh. On July 17, 1790, Adam Smith dies after an illness.

The Theory of Sentiments, published in 1759, was based on his Glasgow lectures. This work is concerned with the explanation of moral approval and disapproval (Bartleby, 2001). He bases his explanation on sympathy, focusing on the standards of ethical conduct that hold society together, emphasizing the general harmony of human motives and activities under a beneficient Providence (Ockham, 2001).

In 1776, while America was signing the Declaration of Independence, Smith moved to London and authored his world renowned Wealth of Nations, which examines the consequences of economic freedom (Bartleby, 2001). It covered the role of self-interest; the division of labor, the theory being if everyone does what he or she does best, the society as a whole would become more productive; the function of markets; and the international implications of a laissez-faire economy (Landry, 1998). At the time of publishing, there was a strong sentiment for free trade in both Britain and America (Leemhuis, 1997). This had been influenced by economic hardships and poverty caused by war, but Britain stayed set in its way for years. Smith laid the framework of free market that still holds true today.

Laissez-faire government believes commerce and trade should be permitted to operate free of controls of any kind; there should be no tariffs or other barriers. The direct translation from the French language is “leave alone to do”, which is self explanatory. A majority of people saw confusion in economic activity in England mid 18th century (Kilcullen, 1996). Everyone was doing as they pleased and deemed necessary. Businesses produced what they wanted to produce and consumers purchased what they wanted to buy. Nobody, including the government, dictated what had to be produced or purchased, yet businesses were providing the goods and services consumers wanted and needed. This is the basis for Adam Smith’s “invisible hand theory”. The “invisible hand” encourages businesses to provide what consumers want. At the same time, it discourages government involvement. The whole idea started with profit-seeking individuals. People started businesses out of self-interest, as it grew other people would copy and enter the same field; directly resulting in consumer satisfaction and competition which controlled prices (Nickerson, 1997). Soon businesses needed labor where workers shared tasks. This resulted in mass production, more efficiency, and lower costs. The money earned gave consumers money to spend. The only responsibilities of the government should be to define property right, set up honest courts, impose minor taxes and subsidies to compensate for well defined and narrowly specified “market failures” (First Monday, 2001).

Smith also covers the topic of supply and demand. He states there is an equillibrium point at which the supply and demand are equal and profits are maximized (Kilcullen, 1996). His definition of market price is the cost of creating goods in their final form and getting them to the final destination where they are sold. Costs include transportation, production, materials, rent, etc.

My opinion is if more money is put into the economy then it will grow faster, but if too much is entered, inflation will occur. The economy should be free of government control, yet oversee it to prevent any problems. Greenspan is abusing his position and should let the currency flow into the market rather than holding it back. Greenspan is preventing problems but is being too cautious. I feel the economy should be allowed to flourish and grow to its fullest capacity. By inserting more money it will grow, and help control the unemployment rate. Greenspan has a very challenging job as the Chairman of the Federal Reserve, He must disperse currency into the market while not allowing inflation to occur.

In conclusion, Adam Smith made as much sense in the 18th century as he does today. It was Smith, the Father of Economics, who presented economics as a discipline all its own. He knew the producer and the consumer are the vital elements of the economy, seeing the consumer as more important as they presented the need and controls the prices by deciding how much he or she is willing to spend. Smith is a historical legacy who was both brilliant and congenial. For people who believe in free markets, property rights, and individual enterprise, Adam Smith laid the framework three centuries prior, and we owe him a lot, namely our capitalistic economy to him.

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