

ADAM SMITH (1723-1790)

Adam Smith is the founder of the classical school. He has been described as the “father of political economy”. His work “Wealth of Nations” is generally regarded as the starting point of classical school. Thomas Robert Malthus, David Ricardo, J.S. Mill and J.B. Say are the leading economists of the classical school.

Adam Smith was born in Kircaldy, Scotland on 5th June, 1723. He studied at Glasgow University under Hutcheson from 1737 to 1740. And from 1740 to 1746, he continued his study at Oxford University. For three years he delivered free lectures on English and political economy at the University of Edinburgh. In 1751, he became Professor of Logic and then of Moral Philosophy at Glasgow University. After teaching for more than a decade, he became a private tutor to the Duke of Buccleuch. He travelled for two years on the continent. During the 10 months he spent in Paris, he came into contact with thinkers and statesmen of the status of Quesnay, Dupont and Turgot. In 1778, Smith was appointed as commissioner of customs in Edinburgh and remained on this post until his death in 1790.

In 1751, Adam Smith was appointed on the chair of Moral Philosophy. In 1759, Smith published his Theory of Moral Sentiments. In 1776, he published his Wealth of Nations (An Inquiry into the Nature and Causes of the Wealth of Nations). Adam Smith’s Wealth of Nations was a challenge to mercantilism. Smith was the first economist to deal with economic problems in a systematic manner. Adam Smith, first of all, emphasises the importance of labour as the source of wealth of a nation. According to him, the wealth of a nation can be increased by adopting the principle of ‘division of labour’ and division of labour is limited by the size of the market. The size of the market depends upon the volume of international trade. Division of labour necessitates exchange. This leads on to a discussion of the means of exchange and value. After discussing the problem of value and price in his book, Adam Smith discusses the problem of wage, profit and rent. In the last section of his book, he discusses the problem of public finance.

Influences that Shaped Smith’s Thought-There are many influences that had an impact on Smith’s economic-cum-philosophical thought. We may summarise these influences as – I. Mercantilism and Physiocracy- According to Haney, Adam Smith built upon the work of his predecessors. He stated, “Adam Smith was acquainted with the writing of mercantilists, and the physiocrats; and he stood upon their shoulders,”

- Mercantilism- Smith’s Wealth of Nations is a ringing challenge to mercantilism. Smith’s theories evolve as a criticism of mercantilists’ basic theories i.e. wealth as treasure, foreign trade and favourable balance.
- Physiocrats- The impact of the physiocratic economic doctrine on Smith is not so easy to establish. Much can be said for and against the physiocratic influence on Smith. It is pointed out that the physiocratic thought did shape Smith’s views. During the 10 months he spent in Paris, he came in contact with thinkers and statesmen of the status of Quesnay, Dupont and Turgot. Smith had frequent meetings with Turgot, and had discussions on economic questions because at that time Turgot was preparing his Reflexions, which was published only three years later. Smith was certainly acquainted with Classical School-I the writings of the physiocratic thoughts and with many of its leaders. In fact, Smith had many views which were similar to those of the physiocrats. Smith’s thoughts run parallel to those of the physiocrats as regards natural laws, beneficent providence, laissez-faire, self-interest and problem of surplus. These fundamental conceptions formed the ground work of the political economy of smith and the physiocrats. In conclusion it can be said that physiocracy in general was not much different from Smith’s views. It is because physiocrats and Smith worked in essential similar political and economic climate.

II. The Founder of Political Economy- The founders of political economy include all those thinkers- mainly English and French- who prepared the ground for all classical systems. Adam Smith is acknowledged as the founder of classical political economy-classical economics. Thus we have to distinguish between the founder of political economy-Petty and classical economists Smith, Ricardo and others. In the theory of money, Smith stands grateful to Hume, Locke and Stuart. Smith's historical interests were inspired by Stuart. Smith took over the problems of public finance and some of the solutions from Petty and Stuart. Cantillon's Essay is most systematic statement of economic principles before the appearance of the Wealth of Nations. Petty had stated the central problem of value. Petty, Stuart and Cantillon, in particular, may be regarded as Smith's predecessors. The effects of physiocrats on the development of economic thought were very similar to those of English economists. Eric Roll states, "The two contributors are united a single system in Adam Smith."

III. Smith's Immediate Predecessors- Hutcheson, Hume, Tucker and Ferguson were the chief predecessors of Smith. Smith's emphasis on self-interest and the related tendencies in his thought stimulated by the spirit of Mandeville's well known Fable of the Bees. Smith states that ordinarily the "natural" action of private self-interest leads to the most perfect organisation of social and economic relations and to the greatest welfare of all. Mandeville also clearly expressed the concept of division of labour. And he was perhaps the first to employ the word "divided" and "division" in relation to division of labour. Francis Hutcheson was one of Smith's teachers at Glasgow University and had a deeper influence on Smith. Smith may well have got from Hutcheson some purely economic ideas i.e. ideas on division of labour, value, money and taxation. Hutcheson distinguished utility from value, stating that natural basis of all value or price is some of sort of use. According to him, wealth is differentiated from utility by labour. When labour is added to utility, we get value. Hutcheson was an ardent advocate of religious, political and economic liberty. To him may be traced Smith's theory of morals, sentiments, and ideas on the subject of values, interest and money. Adam Smith derived his faith in the natural order from Hutcheson.

Josiah Tucker was another writer who influenced Smith. Tucker wrote several essays on subjects relating to commerce and taxation. He also emphasised the significance of labour. Tucker believed in a large population and suggested a tax on celibacy. He held that self-interest, if given free play, would be beneficent for the society. It may, thus, be inferred that Smith drew freely upon his views for his Wealth of Nations. Ferguson, a contemporary and friend of Smith, might have also influenced Smith on the subject of taxation. His maxims of taxation were not the same, but they must have influenced Smith's canon of taxation.

IV. Environmental influence: The last quarter of the eighteenth century, in particular, is full of events that mark the beginning of a new era in economic and political organisation. These events include the beginning of the Industrial Revolution which meant expansion of industrial capitalism, partnership between the leaders of industry and the scientists, the struggle for independence and the American Declaration of Independence that weakened the old colonial system. In the field of politics, the ideas of liberalism were gaining ground in England long before the French Revolution. Economic theory had also acquired a new content and new method, much earlier than Adam Smith appeared on the scene. In fact, the fifty years around the end of the eighteenth century marked great social changes – new form of production, of social relations, of government and of social thought making spectacular progress. Thus, the environmental forces came to play a significance role and all this influenced the smith's thought.

V. The Role of Travels and clubs-At the age of fourteen, Smith went to Glasgow, where the philosopher Hutcheson deeply affected him. At Glasgow, Smith discussed the effects of bounty on the exports of corn, talking to merchants and convincing many of the advantages of free trade.

Smith then went to Oxford on scholarship and he studied classics there. In about 1764, he travelled to Switzerland and France, where he had a chance to meet Quesnay and Turgot. Discussion with Turgot on economic topics influenced both (Smith and Turgot). The clubs and associations had their influence on Smith. Smith joined the club at Glasgow and Edinburgh. It was common for intellectuals to meet at clubs in the eighteenth century to discuss fine art and trade. The questions of economic importance were generally discussed at the clubs. Smith's Economic Ideas Smith's thought is mainly embodied in his creation Wealth of Nations. The basics of his economic thoughts are summarised thus:

Significance of labour- Classical School-I According to mercantilists, the main source of wealth was trade. For the physiocrats, land (the bounty of nature) holds the central place. According to them, it was only land that was productive. The mercantilists like Petty considered labour as the father and active principle of wealth while land was considered the mother.

In the starting of his book, Smith accepted the importance of labour and said that labour is the source of whole wealth. This thought of Smith is the basis of Wealth of Nations. The First paragraph of the Wealth of Nations is starts with "The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes and which consists either in the immediate produce of that labour, or in what is purchased with that produce from other nations." He did not undermine the importance of the role played by nature in production. He simply meant that while physical environment is unchangeable, labour is variable, and that the wealth of nations varies with the variation in the labour factor. Smith regarded the labour as the exclusive force upon which the wealth of nation depends. Smith makes labour the cause and also the measure of value. Smith lays emphasis on labour as "productive labour". According to Smith, productivity included any addition to exchange value i.e. productivity of labour was the value which it added to the materials on which it worked. There is an important point to be noted here. All exchange value was not considered. The exchange value in relation to vendible commodities was considered. The unskilled servants, public officials and professional men were taken to be unproductive.

Division of labour- Smith is not the originator of the idea of division of labour the traces of it have been found from the Greeks. The emphasis which Smith laid on the labour factor was mainly a reaction against the physiocratic doctrine. According to Smith, "the greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity and judgement with which it is anywhere directed or applied, seems to have the effects of the division of labour." Under the head of division of labour, Smith dealt with the different aspects of the separation of different trades and employment. Division of labour refers to the specialisation of labour in different industries or different processes within the same industry. Adam Smith has illustrated division of labour with the help of pin-making industry. "one man draws out the wire; another straightens it; a third cuts it; a fourth points it; a fifth grinds it at the top of receiving the head; to make the head requires two or three distinct functions; to put it on a peculiar business;...and the important business of making a pin is in this manner divided into about 18 distinct operations." if one man performed all the above operations, that is if there was no division of labour, man could not make more than twenty pins. But on the other hand, if division of labour was practised, the average production of each man was 4800 pins. This process of division enables each man to produce at least 240 times as many pin as he would if he worked alone The division of labour is an expression of man's constant need for the co operation and help of his fellows. He says that "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest." Society is bound together by mutual exchanges which are motivated by self-interest and which are based on

division of labour. This tendency of mutually satisfying each other's want is common to all men. Smith was well aware of the limitation of the scope and extension of labour. According to him, the division of labour is necessarily limited by the nature of occupation, the extent of market and the quality of capital available. He made well known assertion that division of labour is limited by the extent of market- the larger the market (exchange), the greater the division of labour. A larger market means greater demand. If there is wide demand for a good, it will be produced on a large scale and there will be a lot of scope for the application of division of labour. In those industries which produce goods for international market, there will be great scope for division of labour. Self-sufficiency (no exchange) and division of labour do not go together. The application of division of labour depends upon the nature of goods. For example, the scope for division of labour is not as great in agriculture as in the case of manufacturing industry.

Smith believed that division of labour increased productivity. Division of labour has the following advantages-

- Division of labour will increase the output per worker.
- By doing the same kind of work constantly, the worker gets a great skill in his particular line. Practice makes a man perfect.
- A man can work continuously on a single operation. He need not spend time in changing tools or passing from one process to another. Thus it saves time since one does not have to change his job frequently and
- Division of labour prepares the way for introduction of machinery. It will result in the invention of great number of machines which facilitate labour. In other words, division of labour is the mother of invention.

Division of labour simplifies work and it is possible to make use of machines for each process. Smith was not unaware of some disadvantages of division of labour. For instance, extreme division of labour would result in monotony of work. By doing the same work again and again, man would not find pleasure in his work. He would be bored with the same job.

Money- After disposing of the subject of division of labour in the first three chapters, Smith takes up the subject of money. He attacked mercantilists because they over emphasised the role of money in an economy. According to Smith, "a nation's true wealth consists not only in its gold and silver but in its land, houses and consumable goods of all different kinds." Money is a medium of exchange which is essential to trade and commerce. It did away with the inconveniences of barter- it facilitates exchange and without it large scale commerce would not be possible. It was, therefore, an important factor contributing to the extension of division of labour .

Money only serves as an instrument for the circulation of wealth and for the Classical School-I measurement of value. Money does not add to the revenue of society but it is a great wheel of circulation. It facilitates the circulation of goods. Although the gold and silver coins that circulate in an economy form a valuable part of the capital of the country, they are dead stock and produce nothing. Smith linked money to a highway over which the goods (produce) of a town is carried, but which itself does not produce a blade of grass.

Value- According to Smith, there are two kinds of value: (1) value- in -use (2) value- in- exchange. Value-in-use expresses the utility of some particular object, in modern analysis, the capacity of a thing to satisfy wants. Value in exchange is the power of purchasing other goods. Smith points out the things which have the greatest value-in-use e.g. air and water have generally little or no value of

exchange. And like this diamond has little value-in-use but it has great value-in-exchange. The determination of value (value-in-exchange) has been one of the central problems in economics. Smith believed that labour was the real source of value.

According to him, the value of the things depended on the amount of labour expended upon its production. In other words "The value of any commodity, therefore to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command. Labour, therefore is the real measure of exchangeable value of all commodities." Adam Smith emphasised that "Labour is the real measurement of the exchange value of all commodities." This is the famous labour theory of value. Smith said that in an early crude state of the society, when the process of accumulation of capital had not started and the land was not appropriated by anyone, labour was both the determinant as well as the measure of value. But since the time of accumulation of capital started, and the system of proprietorship of land began, element of profit and rent came to be included into price and thus according to Smith, in all prices there is an element of rent and wage. We must also note that Smith made a distinction between natural price and market price. When the price just covers the ordinary rate of interest, wages and profits expended in preparing and marketing the commodity, it sells at the natural price. In simple words, natural price is that price which covers natural rates of interest, wages and rent. Thus, the concept of natural price is essentially "the cost of production" theory of value. Opposed to the natural price is the market price, which is determined by the forces of demand and supply through the competition among the buyers and sellers. The market price may be below or above natural price.

Wage- According to Smith, wage is determined by the bargaining power of employers and wage earners. Employers, being limited in number, can easily organise themselves to form associations whereas the organisation of labour is not possible. The employers consistently try not to raise wages of labour above the actual rate. Hence, wages depend on the bargaining strength of both the parties. Since bargaining strength is on the side of employers, the labour gets only as much wage as will be sufficient to support him and his family. This is the subsistence level. According to Smith, "Masters cannot reduce wages below a subsistence rate." He observed that the market level might be higher than the subsistence level whenever the society was progressing and the funds for employment were expanding more rapidly than the population. Since this fund is dependent on the national wealth, the wage of labours will only increase with the increase in national wealth. In the stationary state, wages may be low. Thus, Adam Smith has taken into account both demand for labour and supply of labour in the determination of wages. We find in it the trace of the wages-fund theory and the Malthusian theory of the Population.

Adam Smith has also analysed the problem of wage differences. He has given the following reasons for differences in money wage-

- Agreeableness of the employment
- The cost of learning skill
- The constancy of employment
- The trust reposed in the workmen
- The probability of success.

Smith has a soft corner for labour. He said that no society could flourish if its labouring classes were poor and miserable. Thus labour class must be tolerably well-fed, clothed and lodged. Smith recognises the role of labour, land and capital in production.

Profit- Like wages, profit also depends upon the increasing and decreasing state of wealth in a country. Under the condition of competition, an increase in capital will lead to a decline in the rate of profit and vice versa. Adam Smith made certain exceptions to the statement that wage and profits moved in the opposite directions, since wages rise with an increase in the capital stock and fall with a decrease in capital stock. The capital stock determined the wages and demand for labour. In a developing society, (in new colonies) both wage and profit may be higher and in the stationary state, both wages and profit may be low. Profits vary from day to day on account of changes of price and fortune. Thus the average rate of profit is not easy to determine. But profits closely follow interest on money. Smith tried to prove that profit is equivalent to the total return on capital and interest is a constituent element in profit.

Interest- Smith discusses profit and interest together. A part of profit is paid as interest to the capitalist. Interest arises when the capitalist does not himself employ his capital, but lends it. Interest is the price paid by the borrower to the capitalists. According to Smith, "Interest is the compensation which the borrower pays to the lender, for the profits which he has an opportunity of making by the use of the money." Interest is treated as a part of profit. The borrower pays interest if he makes profit. He believed that interest would vary with profit.

Smith said, "Minimum interest must be something over and above what is Classical School-I sufficient to compensate the occasional losses to which lending is ordinarily exposed."

Rent –Rent is a payment for the natural produce of land. It is a price paid for the use of land. Smith said, Rent was a mere extortion. This rent is the highest price a tenant can pay to the landowner. Land varies with fertility and situation. If land is far away from the market, much more labour is required by the tenant. Thus the surplus (rent) left over for the landowner is diminished. Differences in fertility generate differences in rents. Superior fertility means higher rent. Smith's ideas on rent are not clear-cut. Smith was inconsistent while discussing the relation between rent and price. Smith states that the amount of rent depends upon price and price depends on rent- a contradiction.

Capital-Smith had realised the importance of the role of capital in the economic development of a nation. He treated capital as an important source of national wealth. Besides division of labour and money, capital plays a great role in production. He was aware of the fact that capital accumulation is essential for the industrial development of a nation. Smith holds the view that the accumulation of "stock" (capital) depends upon the extent of the application of division of labour which is necessarily limited by the extent of market, the density of population and the machinery of commerce. The division of labour is itself governed by the amount of capital accumulated. The accumulation does not only determine the amount of industry but also its efficiency. In the opinion of Adam Smith, "the portion of the income that was saved was immediately employed as a capital." In other words, an act of saving at once becomes an act of investment. In this way, saving is equal to investment. Smith did not pay much attention to the problem of hoarding.

Smith has classified capital in three portions which sets the labour in motion.

- The first portion is that portion of the stock of an individual of a society which yields revenue, as contrasted with that portion of the stock which is used for immediate consumption.

- The second portion of capital is the fixed capital. It affords a revenue or profit without circulating or changing masters, e.g. buildings, machines, improvement of land, instruments of trade which facilitate and save labour.
- The third portion is the circulating capital which affords a revenue or profit only by circulating or changing hands, e.g. money, stock for provision, raw material, partly manufactured goods and finished products

According to him, fixed capital is derived from the circulating capital, which is itself derived from 'lands, mines and fisheries.' All these types of capital set labour in motion which operates upon natural resources and produces food and raw products for industry

The analysis of Smith reveals a distinction between the gross and net revenue of the society. The gross revenue of all the inhabitants of a great country, he says, "comprehend the whole annual produce of their land and labour; net revenue which remains to them after deducting the expenses on maintaining first, their fixed and secondly, their circulating capital or without encroaching upon their capital, they can place in their stock reserved for immediate consumption or spend upon their subsistence, conveniences and amusement." **Capital of the nation may be employed in four different ways-**

- In procuring the rude produce annually required for the use and consumption of the society.
- In manufacturing and preparing that rude produce for immediate use and consumption • Transporting either the rude or manufactured produce from one place where they are abundant to those where they are wanted.
- In dividing in particular portion of either into such small parcels as constitute the occasional demands of those who want them.

Smith believed that investment in agriculture is the most productive form of capital investment because in agriculture "nature labour along with man." Industry, manufactures and domestic and foreign trade come next. The capital invested in agriculture not only sets in motion a great quantity of productive labour but also add a much greater quantity of annual produce to the real wealth of the country.

Free Trade- Smith advocated free trade. Free trade means that trade as among countries is not subject to restrictions. Smith was opposed to the mercantilist theory of balance of trade. Smith did not accept the mercantilist view that foreign trade is advantageous because it acquires gold and silver. According to him, gold and silver, just like other commodities and in the natural course of trade, will come to any country as other commodities do. Therefore, he does not agree that the export of gold and silver should be restricted. According to him, the only advantage from foreign trade is that it carries out surplus commodities and brings in commodities which are in demand. He treated foreign trade as domestic trade and considers it as much responsible for extending division of labour. He believed that foreign trade would promote greater division of labour. Smith conceived the economic world as a great natural community created by division of labour. Smith believed in the natural organisation of the economic order under the influence of personal interest. He believed that the interest of individuals coincided with the interest of the society. He argues that every individual knows his interest best and is more competent to realise his interest and better understands the direction of his own action than the government. He illustrated the idea of the harmony of interest with this example-"It is not from the benevolence of the butcher, the brewer or the baker, that we expect our dinner, but from their regard to their own interest." He was a great

advocate of laissez faire –non intervention by government in business. According to him, governments are wasteful, corrupt and incompetent. So he advocated minimum role for the government.

Role of Government – Smith advocated minimum role for the state in economic affairs. He considered non-intervention by government in economic matters as a wise policy. In his view, governments are always and without any exception, the greatest spendthrifts in the society. According to Smith, state could perform only the following three major functions-

- To protect society from foreign attacks
- To establish the administration of justice within the country
- To erect and maintain the public works and institutions that private entrepreneurs cannot undertake privately. It is to be noted that non-intervention for Smith was a general principle and not an absolute rule. He justified legal control over interest rates, compulsory elementary education, state administration of post offices, and control over the issue of paper money by bankers. Though he advocated free trade, he favoured two kinds of protectionist tariffs-
- Those tariffs that protect a domestic industry essential to the defence of the country. He says, 'Defence' is more important than opulence.
- Those that equalise the tax burden on a particular domestic industry by imposing a tariff on imports of that good. Smith also suggested that if free trade is to be introduced in a country after a long period of protectionism, it should be done gradually in order to avoid unemployment.

Canon of taxation

Canon means a standard by which a thing is judged; it means a criterion. Therefore, canons of taxation are the criteria of taxation. According to Smith, the revenue of the sovereign is derived from two sources-

(1) Funds, land and capital of the state and

(2) taxes . Adam Smith has laid down four canons of taxation:

1. **Canon of Equity-** It can also be called the canon of ability. Smith stated it as: "The subject of every state ought to contribute towards the support of the government as nearly as possible in proportion to their respective abilities, that is, in proportion to the revenue which they respectively enjoy under the protection of state."

2. **Canon of certainty-** Tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, manner of payment, quantity to be paid ought all to be clear to every person. The government and the tax payer should have knowledge about how and when and what taxes are to be levied. It is good for government because it provides a sort of correct estimate about prospective income. The certainty about taxes is good for taxpayers because he knows where he stands.

3. **Canon of Convenience** –The manner and the time of tax payment should be convenient to the taxpayer. The idea is that the taxpayer should be psychologically and financially prepared for the onslaught of the tax. Smith stated, "Every tax ought to be levied at the time or in manner in which it is mostly likely to be convenient for the contributor to pay it."

4. **Canon of Economy**- This canon states that the cost of the tax collection should be the minimum possible. The revenue from a tax should be much more than the cost of its collection. Smith stated, "Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state." Taxation is an act of production. Therefore, both production and taxation imply the practice of economy. Every producer would try to produce at the lowest cost. In the matter of taxation also there is need to practise economy. This is a modern version of the canon of economy

Critical Estimate of Adam Smith's Contribution to Economic thought – In spite of his important contributions, Adam Smith could not escape criticism. Among the criticism raised against Smith, the following are the most important:-

1. We find that Adam Smith did not give anything new to the development of economic thought as the concept of division of labour is as old as Plato and Xenophon.

2. He appears to be quite confused in his analysis of value

3. Smith's argument relating to wage led to no definite conclusions in so far as a tenable theory of wages is concerned. He has given many ideas but without any strong conviction.

4. Smith's approach is essentially materialistic. His concept of wealth is extremely narrow. He does not regard wealth as a means to the higher ends of life.

5. Smith was dominated by self-love, self-interest, and shrewd choices of a scotch trader. Thus, Smith's Individual is really an unreal one.

6. His economics appears to be a mixture of individual and social points of view, although on the whole, he has adopted the individual point of view. This is two-fold criticism.

(i) It is impossible to build a consistent theory of economic value on a mixed basis which shifts back and forth because wealth and expenses, as seen by the individual businessman and welfare and human costs as seen by the social scientists differ;

(ii) for the most part, Smith proceeds from the entrepreneur point of view. He warns the clashes of interest but for a solution he relies chiefly on the self-interest businessmen. He mentions real cost but without explanation, he shifts for contractual payments for wages and rent and develops no theory of profit. Capital remains the fund of the capitalistic employer.

7. Smith's theory of distribution is sketchy and incomplete.

8. The philosophical basis of Smith's theory is not relevant to modern time. It Classical School-I is in the context of "natural order"- laissez fair, self-interest invisible hand that Smith's theory of development is supposed to operate. In developing countries, the state has come to dominate the development process. These countries, in particular, do not swear by natural order and what it embodies.

9. Smith point out that as the economy moves towards the stationary state, the sequence of development is first agriculture then manufactures and finally commerce. For Smith, this sequence is according to the natural course of things. This sequence of development of different sectors is illogical in modern economic planning, all the sectors must go hand in hand.

10. Smith does not discuss rate of interest separately- It is included in profit as the modern economic theory gives importance to rate of interest. The rate of interest is a constituent of cost, and interest earnings are a part of national income.

Notwithstanding the above criticism, we should note that Smith gave Political Economy a definition and made it a distinct science. He was the founder and father of political economy. And “he brought labour and capital into prominence, along with the land factor emphasised by the physiocrats. Adam Smith was the first development economist who realised the importance of capital accumulation in economic development.

Adam Smith’s labour theory of value was the foundation for Marx’s theory of surplus value, which the latter used as a weapon to attack capitalism.

The Wealth of Nations was written during that period of his life, when he was most active and busy with the study of the subject. Wealth of Nations was a remarkable book and without it, the development of economic thought in the years that followed could not have been possible. It must be said that Smith was responsible for chalking out the outline of economic inquiry, for determining its scope, and arranging the chief problems in the field of production, value and distribution. Besides this achievement of Smith’s book, the more important were its socio-philosophical implications. He was the first to give a systematic statement on the harmony of social interests and also for introducing a utilitarian tradition in economic science.

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