Barreto

History of Econ Thought

Reading the *Wealth of Nations*

**Introduction:**

Labor --> Output

Output per unit of time (a FLOW) makes a country wealthy[[1]](#footnote-2)

The more Q/L the better

Q/L = f(“skills”, “% of L employed”)[[2]](#footnote-3)

Productivity is more important

Example to “prove” this

Book I will examine

1) How and why Q/L increases

2) How Q is distributed

Book II will examine how and why K stock increases (since K stock

determines % of L employed)

Explains what Books III, IV, and V will cover

Book I:

*Chap I:*

Going to answer 1) and 2) above

1) How and why Q/L increases

Q/L = f(productivity, % of labor employed)

Productivity = f(division of labor) (PROOF: Pin-making)

because a) practice makes perfect

b) saves time

c) innovation

1) slight adjustments by laborer

2) a class of people will make their life's work the search for improved means of production

[NOTE: Predicting rise of R+D]

Bottom line -- the market system generates a fantastic amount of output

*Chap II:*

Division of labor = f(man's propensity to trade)

Man's propensity to trade -- (a) "belongs not to our present subject to enquire"

or, "more probable," (b) f(faculties of reason and speech)

KEY =================> Man is self-interested

In a market system, you get what you want by figuring out what the other guy wants and trading

[Later Smith will argue that doing what is best for oneself, paradoxically, results in doing what is best for all.]

*Chap III:*

Division of Labor is limited by the "Extent of the Market"

Point: Must continually expand market or the system loses its beneficial results (i.e., massive increases in the FLOW of goods and services)

He never completes the argument, but it runs something like this:

Thus, Division of Labor =f(man's propensity to trade, extent of the market)

Man's propensity to trade increases DivofL

Extent of the market restricts DivofL

Division of Labor powers growth.

As long as we continue to extend the market, we will continue to have growth.

1. The Wealth of Nations is NOT due to an accumulated fund of bullion for two reasons: (1) it is the goods and services that count, not the money; and, (2) it is the FLOW that counts, not the STOCK. I maintain that these two points are revolutionary . . . [↑](#footnote-ref-2)
2. Today we would say,

   Q/L = f( labor productivity, labor force participation rate) [↑](#footnote-ref-3)