

Do you know what is "invisible hand" in economic theory? Are you aware of how a free market works? Mercantilism provides a useless accumulation of gold and silver and how does it do this?

The above notions and more are mentioned in The Wealth of Nations which is the masterpiece of Adam Smith. Smith was philosopher and economist in the 18<sup>th</sup> century and he is still accepted as the "father of modern economics" because of his defense for a free market and restricted government intervention with positions that many experts have discussed.

In short, if you read Smith's book, you will learn why he thinks that the key to a nation's well-being is in a free market. The concept of taxation, free trade, and economic interests is observed by Smith's sympathetic investigation.

## Chapter 1 - Productivity can be rise by dividing labor and the marketplace provides people to master.

Think like you desire to build a factory to manufacture pins and according to that, you can employ an untrained employee to work in the production area.

To produce a pin, there are found 18 steps and an employee works in each step. So, the conclusion is observed as awful because one employee procreates just one pin during working hours.

However, assume that you built a team of 18 untrained employees, each worker is taking care of each business step and in the end, each worker trained to become a master in one of the 18 steps?

Do you think the result would be only 18 pins per day? Not exactly, the team probably can manufacture 50,000 pins per day!

Productiveness can be enhanced hugely by dividing labor. Probably, you are wondering how the process works?

If an employee has to pass a lot of different work types, it is a waste of time. Thanks to the division of labor, an employee concentrates just one job and productive time occurs instead of wasting the time for nothing.

Moreover, when people give their full attention to one specific job area, they can be the innovator for the specific job areas. Productivity is also increased by innovations.

To illustrate, the first fire machines were largely developed by a child using a rope to open and close the truck's water valve. No strikingly, the boy's first job was opening and closing the valve by manually!

While efficiency rises, excess of unwanted products can be bought and sold later. To demonstrate, if a butcher cuts too much meat and finds himself with an excess of meat, he can exchange the meat to bread from the baker.

So, what about unsolicited goods? What happens if the baker does not desire butcher's meat?

Thanks to the foresight, money was found. Butcher can go to the market to sell his product and a customer, who desires to buy, can buy the product with money and later, the butcher can use the money to buy bread from the baker. As a result, money is used as a vehicle between butcher and baker.

Assume that the butcher desire to buy cheese instead of bread? He earned cash by selling his product and now, has to right to going to market and purchasing the cheese with the money.

In this view, people can become specialized in their handicrafts, areas or other kind of division of labor. Thanks to the division of labor, productivity rises and it creates markets where the craftsman can merchandise the excess products.

## Chapter 2 - It is more important for a nation's wealth to have labor-tradable goods rather than gold reserves.

Once upon a time, nations deemed that economic welfare belonged to how much gold and silver they have. Mercantilism was named this and this way of thinking became a dominant thought in the 18<sup>th</sup> century.

Besides, while governments had the power to preventing cash from flowing out of the city and they could use the power to limit imports through trade tariffs, at the same time, they promoted exports to come money in their country. This application was called as protectionism.

But the opinion based on two wrong pre-admissions.

The first thought was that gold and silver were the most important indicators of wealth, and indeed these valuable metals too were sellable products, such as cereal or meat.

The second thinking was believed that nations could increase their welfare level only when their neighbors were impoverished. Nevertheless, nations will become in the unarguable way rich through trade, even though their neighbors are welfare and wealthy.

Labor is more important than gold and silver because only sold goods or services are labor. Therefore, the effort made to produce a product indicates the true value of that product. A closer look at why manufacturing something is important to society.

For instance, there are three kinds of income as a result of producing pins. First, workers are rewarded with salary for their labor; secondly, a factory owner earns profit through the sale of pins; and the last one, the owner of the land on which the factory was built, receives income through rent.

Stock is the product of all workmanship. Two things are stored: the part that runs out immediately to ensure continuity and the other is the part to generate income on its own. The part that generates income on its own is called capital.

Fixed capital means if the capital keeps just with the owner and a needle grinding machine the revolving fund is the situation where capital has to leave the owner to make a profit like a trader's shares.

In summary, the country's gold and silver reserves are not what determines wealth, but the ability to manufacture sellable products.

### Chapter 3 - The "invisible hand" in the workplace: acting according to their interests can provide benefits for the community as a whole.

Altruism is seen as a virtue by many people. It is beneficial acting according to one's interests for the whole nation not just for himself.

Try to discover why it could be the situation.

Men and women have a natural disposition for their interests. Therefore, what motivates us to trade; it is not only to help other humans, but it is to self-interest.

Your regional butcher or grocery store does not submit your meat or do you any favor, except for their interests; so they're just interested in your money to pay for their products. It's the same self-interest, which always boosts them to submit high-quality products because otherwise, you can remove your business to some other place.

What can be done to prevent the abuse of customers: to demand exorbitant prices or to offer low-quality products, and in fact, they are the result of thinking of their long-term personal interests.

One of the benefits of commerce is such self-regulation. This also describes that government legislations are only needed as they are not enough to prevent traders from abusing the trust of customers.

The individual's interests can also aid the community to become one. if we have a capital to invest, we prefer to invest it in our domestic industries than foreign industries because it makes us sense safer.

We will always make an investment with our capital in a way that we earn the most profit, as long as we only serve on our own.

Although both of these actions are selfish, they can help enhance social income as a whole. More capital is placed for the domestic industry, and later on, successful interests that generate more income are given capital.

Escalated income comes from escalated production. Therefore, our capital investment can be used mainly to guide society to make more products in general, which provides even more wealth for the country.

This makes us feel as if an invisible hand leads us to support the interests of society even if we never have a personal intention.

## Chapter 4 - Economic growth is increased by a free market. For this reason, the place of the state in this must be restricted.

It is known that it is good to act following the interests of the singular. So where should the government be separated?

To put it all in simple terms, the place of government must be restricted just with a few liabilities.

Even in peacetime in a country, the government must guard the society against violence or invasion by building an army that is professional soldiers.

Besides, the superiority of law must be protected by applying legal rights and penalizing crimes.

Public works that are too complex or costly to care for each singular person, such as roads and bridges, must be built and maintained by the government. Moreover, to reach trade and education such as providing universal basic education must be easy by governments.

Further to that, the government must not tread things that make economic growth adversely.

Therefore, instead of taxing or coordination trade, a free market structure should be established by the government, where customers and vendors can with constraint buy, sell and trade across borders at any mutually agreed price.

There should be no trade tariffs or limitations under Mercantilism.

In a free market, taxation should be minimal to absorb the cost of government restricted responsibilities. Every person must keep going to give taxes in ratio to their income, and those who take advantage of the process must pay taxes for themselves.

Individuals better wise up what is good for them and what is good for society as a result than governments, and therefore, economic growth is excelled in thanks to the free market.

To illustrate, you can grow grapes for wine in greenhouses in Scotland, but to grow wine grapes in Scotland are going to more costly than doing it in France.

The definition of the former maxim can be said as: if buying something is cheaper than doing it at home, it should not do at home. based on this, any person would find out that procreating wine in Scotland is pointless.

Under mercantilism, the government would desire to promote the production of their wine instead of importation the wine other countries, so still, Scottish wine would be tried to procreate.

We can escape this kind of costly faults, thanks to a free market!

## An Inquiry into the Nature and Causes of the Wealth of Nations by Adam Smith Book Review

Productivity in society is excellent by creating a division of labor that allows a person to specialize. According to the benefit of a person, the resulting excess can be bought and sold. It also promotes the community's best benefits. Therefore, the state should be put aside and allow society to increase their level of welfare through a free market.

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