



**THINKER
IN
BOXES**

ADAM SMITH

Team: Capitalist Pigdogs

Position: Forward short leg

Status: Invisible

Adam Smith (1723–1790) was not an angel sent down from capitalists in heaven. He was Scottish. He earned a lifelong pension in just a couple of years by tutoring some duke or lord, so he might actually have been some kind of deity befitting a capitalist pantheon, but he wasn't an angel. He was Scottish.

It's Adam Smith's invisible hand, which does sound kind of godlike and supernatural, now that I think about it, that marks him as one of the great theorists so beloved by the disciples of capitalism. Smith argued that the rational self-interest of people interacting in a free marketplace is the key to prosperity. The basic idea is that a self-regulating free market naturally shifts toward an equilibrium of maximum efficiency. As long as the market is unfettered, the dynamics of supply and demand will cause prices of goods and services to fluctuate, rising with undersupply and falling with oversupply. Rational individuals will then respond to those changes . . . rationally. As price goes up, more people will work to supply the product or service, and as price goes down, some will shift to other products or services that offer higher returns. A similar, but inverted, logic applies to purchasers, and the combination is what Smith called the invisible hand of the market. The free market is self-regulating and self-optimizing.

Sound familiar?

Smith applied a similar logic to wages, saying that those occupations that are hard to learn, or that require difficult-to-obtain expertise, or are just crappy and gross will earn higher wages than the easy jobs that everyone wants. In this, he is credited with creating the idea of human capital. Smith also argued that the division of labor is a key to economic efficiency, and it is notable that Smith's example of sewing pins was considered to be such a good example and argument for the efficiency of the division of labor as a fundamental part of capitalism that Karl Marx addressed it directly in his analysis and criticism of capitalism.

In short, if you examine just about any of the ideas found in modern macroeconomics, you'll find that they pretty much all build on Smith's arguments.