Knowledge Economy (mid 1900’s)
Industrial Revolution 1760-1820
Adam Smith (1723-1790, Wealth of Nations 1776)
16th-18th century: Mercantilism
14th – 18th century: guilds
9th-15th century: feudalism

**Graphic:** Economic history of the world

**What holds society together?**
- Early primitive society – struggle between self-centeredness and social cooperation, starve or cooperate.
- Kinship, tradition, authority
- Market System “a more important revolution than the American, Russian or French revolutions” (pg 21), was “born in agony – an agony that began in the 13th century and had not run its course until well into the 19th. Never was a revolution less understood, less welcome, less planned.” (pg 33)

**How were things different prior to what we know now as our modern market economy** (pg 22-41)
- Although exchange and trade is as old as man, the ideas of property and person gain in our modern sense had not taken root
- Land, Labor, Capital as we know it did not exist
- Income mobility, individualism, making a living, personal gain – are modern notions
- Kings, nobles, guilds, protectionism, tariffs – innovation could threaten the entire order or industry; example of making better socks was outlawed (pg 31)
What changed?
- The enclosing of the commons
- Nationalism (feudalism gave way to centralized monarchies and a national spirit)
- Enlightenment, rationalism, rise in scientific curiosity
- Rise of cities, roads, rising populations, markets, buying, selling, rising merchant class

These changes needed a philosophy, an explanation:
- Mercantilists – pamphleteers and essayists 200 years before Adam Smith (focus on nationalism, kingly wealth and trade, e.g. “Leviathan”)
- Adam Smith

Summary of Chapter III The Wonderful World of Adam Smith
- Adam Smith (1723-1790), Scotland
- Portrayed by Heilbroner as an absent minded professor, lectured on Moral Philosophy (natural theology, jurisprudence, political economy)
- *Theory of Moral Sentiments* (1759), how does self-interested man engage in altruism? Man has the ability to be an impartial observer and form sympathetic views of the objective rather than the selfish merits of a cause.
- What were Adam Smith’s person religious views? (Speculation: Deist? C of E? Rational/agnostic?) He called God the Great Architect of Nature. He was optimistic without being utopian.

*Wealth of Nations* (1776), key ideas:
- He is concerned with promoting the wealth of the entire nation rather than the wealth of a king (e.g., mercantilist writers); this is a democratic philosophy of wealth, and radical. “For the first time in the philosophy of everyday life, the consumer is king.” (pg 71
- He asks, if everyone be pursuing his own self-interest, what holds society together? He forms the laws of the market:
  - **Self-interest** drives men to whatever work society is willing to pay for
  - **Competition** regulates prices and quantity
- These two laws naturally balance each other and are self-regulating, there is no need for a central planning authority, this explains supply and demand
- **Invisible hand** – the private interests of men lead to the interests of the whole society, a system of natural liberty. Let good emerge as the by-product of selfishness.
- However – the market should not be tampered with. Monopolies, cronyism, rent-seeking, rigged prices, tariffs can weaken/destroy the market system (Heilbroner notes that mega corporations and strong labor unions did not exist in Adam Smith’s day). Smith believed that monopolies were a conspiracy against the public, whoever interferes with the market does so at the expense of the nation.
- Labor, not nature, is a source of value
• Smith theorizes a tremendous gain in productivity as a benefit of specialization of labor (pin factory), leading to a gradual increase in standard of living, a considerable advance from feudalism
• “...the market harnesses man’s creative powers in a milieu that encourages him, even forces him, to invent, innovate, expand, take risks...” (pg 63)
• Law of Accumulation – capital put to use in machinery. However, Smith did not approve of accumulation for accumulations’ sake

![World GDP per capita in dollars during the twentieth century. Data before 1950 is not annual.](image)

![Map of world economies by size of GDP (nominal) in $US, CIA World Factbook, 2012.](image)