GROUP ASSIGNMENT 4: Using a Primary Source

Written records provide us with useful information about historical events, everyday life, and the beliefs of different peoples. Historians use two types of written records: primary sources and secondary sources.

Primary sources provide useful information helping us gain a better understanding . However, primary sources can give conflicting views of an event or development. Below you will find an excerpt from the 18th century economist Adam Smith's *Wealth of Nations*. Finance-minded people in the 21st century frequently appeal to Smith's book to justify pressuring governments from "interfering" in a country's economy. For example, in the United States some politicians have actually argued that minimum wage laws should be repealed because they hurt corporate profit.

For this assignment your group will read Smith in the primary in order to: 1). Become better acquainted with Smith's thinking on society and economics; and 2). Place yourself in a position to effectively point out when politicians or financiers are misquoting Smith in order to legitimize a return to *laissez-faire* economics.

Procedure:

1). Read the introduction as a whole class (see above).
2). As a group read the excerpt below from Adam Smith's *The Wealth of Nations*.
3). Then as a group just discuss—do not write anything—the following questions.

> **a. Read the source to find out what information is given.** a). Does Adam Smith oppose or support the intervention of a government in the economy? b). What specifically is Smith referring to when using the metaphor the "invisible hand"?
>
> **b. Compare the two sources.** a). Would Adam Smith have seen Michelle Bachmann as one of those politicians siding with the "masters" (business owners) of his day? Explain. b). What would happen to wages if minimum wage laws were removed in Canada?
>
> **c. Evaluate the reliability of each source**. a). In what way(s) are Bachmann and Smith the same? b). In what ways are the two different?

4). Then individually compose an answer (minimum 100 words in length) to the following question. Ensure you appeal to both relevant logic, events, personalities and evidence in the composition of your answer. Submit your answer using *Google* docs sharing read/write permissions with your instructor (rdelainey@lcbi.sk.ca).

> **d. Use the sources to draw conclusions**. Why is Adam Smith so adamant that when merchants pursue their self-interest society as a whole benefits?

Some biographical information on Adam Smith to help understand *The Wealth of Nations*

Adam Smith (1723-1790 CE) was a Scottish economist, philosopher and author. He was a pioneer in the emerging study of economics during the Enlightenment. Smith laid the foundations for classical free market economic theory, i.e. he was one of the first and most important thinkers to articulate why it was important for governments not to interfere in the affairs of merchants and manufacturers. He expounded upon how rational self-interest and competition led to economic prosperity. Smith is frequently credited with developing the idea of *laissez-faire* economics; however, he never used the phrase. His association with the idea was an invention of the 19th century and widely promoted by modern economists from the mid-1950s onward. In reality, Smith did not fully support the notion businesses and corporations should have zero accountability. Rather, he was a practical man who believed economic systems needed to take the interests of society as a whole into proper consideration. Thus, far from being completely opposed to government intervention it seems Smith supported things like banking regulations to prevent the wealthy few from harming society generally. In a sense, he viewed laws and regulations as necessary as we do fire codes ensuring houses are safe for their inhabitants.

Excerpts from Adam Smith's *The Wealth of Nations*

Some acts of parliament attempt to regulate (or govern) the wages of workers. During the reign of George III, the King prohibited master tailors from paying their workers more than two shillings a day (except under extraordinary circumstances). The act is not in the interest of the worker who would seek to maximize his wages. Thus, whenever a legislature attempts to regulate the differences between masters (business owners) and their workmen, politicians always seem to favor the masters. I would argue, however, when the law is in favor of workmen, it is always just and equitable. Again, the laws obliging masters to pay their workmen what their labor is honestly worth is quite just and equitable.

Regulations favoring workmen impose no real hardship upon the masters of industry; however, the masters enjoy a greater degree of political influence; there is no law preventing them from meeting and agreeing upon low wages to pay the workmen. Were the workers to meet and decide not to accept a certain wage, the law would punish them severely; and if the law was applied impartially it would treat masters and workmen in the exact same manner. The workers, rightly I might add, complain that their wages instead of reflecting the skill and value of a workman reflect the prejudice and self-interest of a group of merchants.

Stock market investors who invest their money in corporations are solely concerned with personal profit alone; they are only worried about their own narrow self-interest; and for this reason are not concerned with what is best for the general welfare of their society.

On the other hand, merchants and manufacturers are closer to the creative processes in the market place; they do not sit back waiting for the value of stocks to rise and fall; instead, they are continually working towards self-interest while genuinely working for the public's welfare and benefit. For if a local businessman profits then by extension the community and its members benefit, as well. But, again, stock investors only care if profit is made; they are so fixated on this they'll harm society in order to accomplish it; these are men whose interest is never lines-up with that of the public; these are men who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it.[1]

…It is only for the sake of personal profit that any man uses his capital[2] in the support of industry; and he always endeavors to employ it in support of whatever industry that is most likely to produce the greatest amount of profit.

---

[1] The South Sea Bubble (1711-1720 CE) provides an excellent example of people investing purely out of self-interest and thereby endangering the stability of the nation as a whole. The South Sea Company was given a trading monopoly in South America, i.e. it was the only company that could legally trade English goods for goods produced in South America. South America, however, was dominated by Spain at the time; therefore, the South Sea Company could never take full advantage of being the only trader in the region. English investors didn't care or rather they didn't know that the South Sea Company (SCC) could not deliver on its promises; nonetheless, the SSC convinced the English public it was a solid investment through advertising and a public relations campaign. English investors rushed to buy stock in the SSC; however, 19 years later reality set in as the SSC's stock collapsed to be virtually worth nothing. Smith would have condemned such reckless speculation on the part of investors and corporations. This is because money that otherwise could have been used to grow the economy was placed into a financial venture that never had any hope of succeeding. Adam Smith had no problem with companies or investors taking chances; however, in the case of the South Sea Bubble a lie was purposely presented as the truth and the whole of England's economy was negatively impacted by it.

[2] Capital is wealth in the form of money or other assets like factories, machinery, etc.

Interestingly, entrepreneurs are not even aware of it but when they invest their money locally they might do so to profit personally, however, society as a whole benefits. While the entrepreneur works to secure their own interests, he does so by ensuring his industry is as profitable as possible; and by doing so he is led, as if by an invisible hand, to promote the welfare of others which was not his intention. This is because local profits are spent locally and local businesses employ local workers. This means the money invested and spent domestically grows the domestic economy. Thus, by pursuing his own self-interest the merchant frequently promotes the welfare of his society more effectually than when he really intends to promote it.

It is evident, at least to me, that merchants are the best judges of what they should or should not do; it is also evident to me that neither politicians nor lawyers know enough about economics to decide what, if any, laws are put in place to regulate an economy. Think of it this way: who is better at making clothes—the tailor or the shoemaker? The answer is clearly the shoemaker; and so it is that merchants alone are in the best position to determine what direction they should take.

Some context to understand former member of Congress, Michelle Bachmann (Republican Party)
Adam Smith (1958-present) is an American politician and member of the Republican Party. She is a former member of Congress who represented Minnesota's 6th congressional district. She ran for the Republican nomination to be the president of the United States in 2012. She is a supporter of the Tea Party movement which emphasizes removing what it considers to be un-wanted government involvement when it comes to taxation, education, healthcare and the economy generally.

An excerpt from an interview between Republican Michelle Bachmann and *Good Morning America* host George Stephanopoulos on getting rid of the minimum wage (interview from 2012)
Literally, if we took away the minimum wage—if conceivably it was gone—we could potentially virtually wipe out unemployment completely because we would be able to offer jobs at whatever level. What I'm saying is that I think we need to look at all regulations, whatever—whatever ones are inhibiting job growth. That's what we need to do. We have just too much expansion of government and so what we need to do is tamp that down so the American people can keep more of what they make.