ADAM SMITH (1723-1790)

The first true economist. Author of An Inquiry into the Nature and Causes of the Wealth of Nations, more commonly called simply The Wealth of Nations. He set forth the theory of the invisible hand. What does this mean? It's related to supply and demand. The more of something there is (supply), the less people want it (demand). Manufacturers make less of it, the supply drops, and then people start wanting it (demand goes up). This causes manufacturers to make more of it until the supply gets too high and demand drops again. This, along with competition for prices, leads to the market regulating itself. There always tends to be about the right amount of something, and it's at about the right price, though it will fluctuate some. It's as if an "invisible hand" were guiding the market and keeping it under control. Of course, this is a very simplified version of Smith's ideas, but it gets the basic point across.

The invisible hand is truly amazing. The businesses want to serve themselves by charging more, and the public wants to serve itself by paying less. This conflict of interests leads, astonishingly, to a market in which most people are satisfied. Competition is an important factor here. Without competition, you'll have a monopoly, and, if people want what's being sold enough, the seller gets to set the price as high as they want. Of course, at a sufficiently high price, the buyer won't be interested anymore. Still, the price will be higher than it would have been in a competitive market.

The opposite of a monopoly happens when there's only one buyer but many sellers. This is called a monopsony. In this case, to a certain extent, the buyer sets the price. Of course, if that price is too low the sellers will refuse to sell, and will not make the product. So again, the price won't be too low, but will still be lower than in a competitive market.

Smith spent a lot of time in a pin factory. Of course, in the 18th century factories were not as modern and technologically advanced as they are today. Still, people were beginning to subdivide their tasks, so that each person, rather than making a whole pin, made only part of a pin, and repeated the task many times. This division of labor, Smith was convinced, was a key to economic growth. It allowed the factory to produce many more pins than the number that would be produced if each worker made only whole pins, and worked independently of the others. Smith's forecast proved correct, as we are all familiar with the concept of the assembly line, as popularized by Henry Ford in his automobile factories.