Twitter Thread by @AdamSmithWorks



@AdamSmithWorks
@adamsmithworks



Book II of #WealthOfNations! It's all about stock! Not the kind you fill with chicken and noodles, but the kind that (according to #AdamSmith) makes commercial society go 'round. (II.intro)
https://t.co/FlxQLGdjbW
#WealthOfTweets #SmithTweets

First! A quick review: without division of labor, every person must provide everything they need. No one accumulates or stores up stock. You do what you can with what you have when you have it. (II.intro.1) #WealthOfTweets #SmithTweets

But once the division of labor develops (remember, it's the secret sauce!) we have so many wants that we can't provide for them all ourselves. Most of them are provided for by others, and we purchase their labor with our own. (II.intro.2) #WealthOfTweets #SmithTweets

Here's why this all matters when we think about stock: we can't purchase other people's labor until we have completed (and been paid for) our own. So we need a stock of supplies to sustain us until we can finish our work and get paid. (II.intro.2) #WealthOfTweets #SmithTweets

Obviously, we need that BEFORE we start working in this way. So to get the division of labor you need the accumulation of stock. It's an ingredient of the secret sauce. (All the best sauces are made with stock!) (II.intro.3)
https://t.co/wi1HtrmBPb
#WealthOfTweets #SmithTweets

Stock isn't just necessary to the division of labor, Smith says that it also inevitably leads to it. (II.intro.4) #WealthOfTweets #SmithTweets

Why does the division of labor follow from the accumulation of stock? We want to use our stock as effectively as possible, and the division of labor is more effective, more efficient, and more wealth-increasing than solo production. (II.intro.4) #WealthOfTweets #SmithTweets

Once you have enough stock hanging around to support you for a few months or years, you can stop worrying about just survival. But, says Smith, many of the laboring poor never get past this point. (II.i.2) #WealthOfTweets #SmithTweets

But if you can get to this place of security, you start to think that maybe you could do something better with your saved up stock than just leave it hanging around. Something like...create wealth! (II.i.2) #WealthOfTweets #SmithTweets

Suddenly, you think of your stock not just as a pile of stuff, but as two piles of stuff! One pile will support you immediately (Smith, of course, subdivides that pile up. Smith loves a good subdivision). (II.i.2) #WealthOfTweets #SmithTweets

The other pile of stuff is capital, and it can make you wealthy! (II.i.2) #WealthOfTweets #SmithTweets

You can use capital to make yourself wealthy in two ways.

1) Use it to raise, make, or buy stuff to sell to others.
2) Use it to improve land, or buy machinery and tools for your business.
(II.i.4–5) #WealthOfTweets #SmithTweets

Merchants only need 1). Other occupations need both 1) and 2) in varying amounts. (II.i.6–10) #WealthOfTweets #SmithTweets

(Smith clearly knows nothing about making clothes. Anyone who thinks that all you need is a package of needles isn't paying attention. And didn't he do a whole thing on pins back in Book One? Who does he think is using all those pins?!) (II.i.8) #WealthOfTweets #SmithTweets

(And also...that whole section on the improvements in textiles?! Why are we, the SmithTweeters, more on top of this than Smith? Harrumph. It's probably because we read @vpostrel and follow @AmericanDuchess and @zackpinsent) (I.xi.o.5–12; II.i.8) #WealthOfTweets #SmithTweets

Anyway. Moving on. The general stock of a country divides itself in much the same way as we divide our personal stock. (II.i.11) #WealthOfTweets #SmithTweets

First, there's the stock of stuff that we use but have not consumed (yet). This is stuff like clothing, houses, the SmithTweeters' drawerful of tea, etc. These don't add to the national revenue. (II.i.12) #WealthOfTweets #SmithTweets

Second, there's fixed capital, which is stuff that adds to the national revenue without changing hands. This is stuff like machinery, land improvements, and education/skills. They make a nation wealthier, but don't move wealth around. (II.i.13–17) #WealthOfTweets #SmithTweets

Last, there is circulating capital. This only makes money for anyone when it is traded and exchanged. This is made up of money, perishable provisions, manufacturing materials, and finished work that has not yet been sold. (II.i.19–22) #WealthOfTweets #SmithTweets

We regularly draw stuff from circulating capital to put it into fixed capital and stock to help sustain ourselves. Fixed capital needs circulating capital to refill its supplies, to pay the workers who run the machines, etc. (II.i.25) #WealthOfTweets #SmithTweets

The ONLY reason we need fixed and circulating capital is to maintain and increase the stock of goods and provisions that supplies a nation’s people. The wealth of the people depends on how well capital is employed. (II.i.26) #WealthOfTweets #SmithTweets

But we also refill circulating capital from stock. The stock provides goods that are worked up into finished work, which can then circulate and replenish the fixed capital. It all goes around and around! (II.i.27) https://t.co/S5CZ50XKS2 #WealthOfTweets #SmithTweets

It HAS TO go around and around. Stock is always getting worn out and consumed, so we need to be producing even if all that we get out of it is wealth levels that stay the same. (II.i.27) #WealthOfTweets #SmithTweets

The farmer replenishes the things the merchant used to make his goods, and the merchant replenishes the finished goods the farmer has used or worn out. (II.i.28) #WealthOfTweets #SmithTweets

If you’re living in a stable, secure nation, you have to be “perfectly crazy” not to use your stock in these ways. (II.i.30) #WealthOfTweets #SmithTweets



But not all societies are lucky. In some, people are continually threatened by violence, and then they bury or hide their stock in case they have to flee. It’s a sorry solution to a real problem. And it often leads to great loss of wealth. (II.i.31) #WealthOfTweets #SmithTweets

Buried treasure is a pretty exciting (if more depressing than we'd have expected) note to go out on here. (II.i.31) But don't worry if you're feeling overheated. We'll back tomorrow to talk—at length—about money. ■ #WealthOfTweets #SmithTweets