ADAM SMITH, "THE FATHER OF POLITICAL ECONOMY" AND HIS ECONOMIC CONCERNS

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Abstract: *Theoretically, classical economic liberalism is represented by the English Classical School, its important representatives being Adam Smith, David Ricardo and Thomas Malthus. In this paper I referred to Adam Smith's conception of the functioning of the capitalist mode of production as a result of the industrial revolution. The paper summarizes the main concerns and theories of the famous economist, theories and concepts on which political economy is based today.*

Key words: economic theory, liberalism, value, price, industrial revolution

INTRODUCTION

Theoretically, classical economic liberalism is represented by the Classical School. Represented in England by Adam Smith, David Ricardo and Thomas Malthus and in France by Jean Baptiste Say, Frederic Bastiat and others. Adam Smith, the mentor of the classical school, was an economist, politician and philosopher and is considered the father of modern political economy. Adam Smith taught literature, morals, and political economy at the Universities of Edinburgh and Glasgow. Contemporaneous with the French physiocrats (Francois Quesnay, Dupont de Nemour, le Mercier de la Riviere, etc.) he took from them elements of economic thought but developed his own paradigm, which was the model of the classical liberal school. This model prevailed in economic thinking until the period between the two world wars [2, 4, 5, 7].

MATERIALS AND METHODS

The paper is based on the study and synthesis of a rich bibliographic material, published at national level, in the field of economics and the history of economic thought. We synthesized the main elements of Adam Smith's economic thinking. These were developed during the emergence and assertion of the capitalist mode of production in England, with the shift from craft production to capitalist manufacturing and machinery during the Industrial Revolution.

RESEARCH RESULTS

Adam Smith's essential work is “The Wealth of Nations. Research on nature and its causes ”, published in 1776. It was structured in five parts (books), of which the first two focus on economic theory, and the last three on the normative aspects involved in it, including comparisons of economic history. Adam Smith's concerns are situated in the field of economic research realities, pioneering activities and can be structured as follows:

Table 1.

Problems and concerns in Adam Smith's work

Issues analyzed:		**Concerns:**
-political economy, - economic policy, - economic history, - the history of economic thinking -finance	**ADAM SMITH** used The method of abstraction Descriptive method	-Determining the wealth of nations and the ways in which it grows -Distribution of wealth among members of society -Discovery of objective economic laws

Table 2.

The main points of Adam Smith's thinking

1. natural order	-it is not an ideal - is done freely and through freedom - there is harmony between the individual and the general interest - the demand / supply ratio is determined spontaneously on the basis of competition, - external intervention leads to the artificial fixing of prices and the imposition of a monopoly - the concept of "homo oeconomicus" = the deeply individualistic man, the goal - a profit as high as possible
2.division of labor	- link the division of labor - labor productivity, time saving and labor improvement - the idea of primary schools, paid by the state for the training of workers
3.the importance of economic activities	- agriculture, industry, trade, - the supporter of the variable tax, not the only one
4.spontaneous organization of economic life	- based on the division of labor, currency, capital increase, supply / demand mechanism
5.price	- natural price (real) = value = cost of production - market price
6. value	- labor necessary for the production of goods = theory of labor value - amount of income of social classes (salary, profit, rent)
7.economic freedom	- the state must not play any economic role other than the administration of justice, defense, public investment, interest rate fixing, job administration, education (primary public education, admission to the liberal professions or "trusted" positions)
8. foreign trade	- is related to the division of labor - each country to specialize in the production of those goods for which it has abundant and cheap resources - the theory of absolute advantage - means of exporting the domestic surplus product
9. money	- a special commodity - value equivalent - the quantitative theory of money - determining the amount of money in circulation
10. capital	- comes from profit - a reserve that will generate profit in the future - the source of capital accumulation - the capitalists acquire a part of the surplus value and the capitalists create reserves (through savings, renunciations, etc.) - the structure of capital - fixed and working capital - does not have a correct definition
11. class structure	workers, capitalists, landowners
12. distribution theory	- the value of goods = Salary + Profit + Income - the value of goods is confused with the incomes of different social classes - source of all income = work

Source: Own construction based on [1, 3, 6, 11, 12]

We further point out the main theoretical aspects of Adam Smith's work on national wealth, division of labor, labor productivity, factors of production and capital formation, absolute advantage, value and selling price, distribution of national income.

As stated above, the main object of Adam Smith's theoretical concerns is "national wealth," as defined by Adam Smith as "the totality of the goods that a nation has at one time." National wealth, according to Smith's theory, includes the annual products of the earth, the annual product of productive labor (goods with material existence or services + the national stock of precious metals). for economics by:

- widened the scope of national wealth from a single category of goods to all commodity goods.
- extended the productive sphere from a single branch, to the totality of the activities of the production of goods,
- considered that, at that time, there were three factors of production (labor, nature and capital) and attributed to labor the role of the main factor of production, this being considered the main source of wealth.

Adam Smith, however, considered that not all the work done in society produces wealth, but only that in the productive sphere. Thus, "work that adds value to another" is productive, and work "that does not add value to another" is unproductive. In his conception, the conditions for work to be productive are: to create a commodity (good material, or service), to create net income. Thus, the people employed in the production of goods form - according to Smith, the productive population and those employed in activities that "do not add value to another" form the unproductive population [9, 10].

Under these conditions, in society there are:

1. useful population, which in turn consists of: productive population (employed in the production of goods, ie in the sphere of wealth production) and unproductive population (employed in useful activities, but which "do not produce goods", ie wealth).

2. the population of those "who do not work at all".

In his analysis, Adam Smith considered that the factors that increase national wealth are ensured by the increase in the number of productive workers and by the increase in labor productivity in the productive sphere. But the increase in the number of workers employed in the productive sphere depends on the "increase of capital or funds intended for their maintenance. it is the decisive factor in creating and enhancing the wealth of any nation.

In conclusion, according to Smith's conception, the factors on which the wealth of any nation depends are: nature, productive labor (its volume and productivity), capital (its volume and evolution) [15]. The main source for raising capital is "saving". The wealth of any nation "is normally divided into two parts":

1. "One of them is primarily intended to replenish capital or to renew the part of food, materials and finished products which has been withdrawn from capital."

2. "The other is destined to form an income, either to the possessor of this capital as profit, or to any other person as rent of the land."

Adam Smith considered that the division of labor has effects on national wealth, as it leads to: increasing the skill of each individual worker (who becomes a skilled worker), saving time (which is usually lost by moving from one kind of work to another), the emergence of a large number of cars (lighten and reduce labor and make a single man able to produce as many people as possible). A summary of Adam Smith's thinking on the division of labor is:

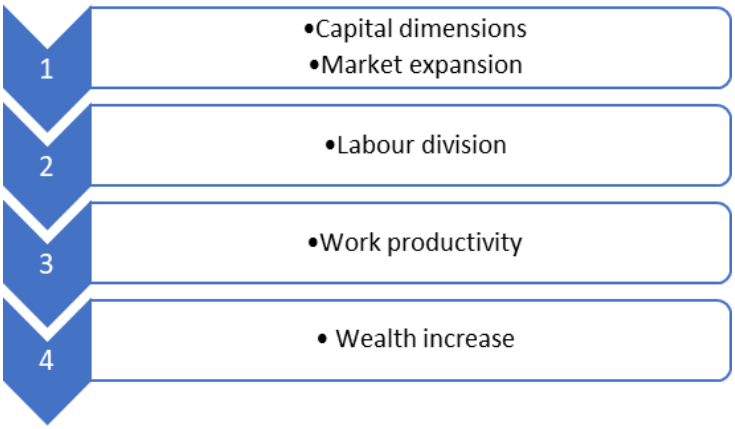

Figure 3. Synthesis of the theory of division of labor in the work of Adam Smith
Source Own construction based [16]

Another important concern of Adam Smith is related to the theory of the absolute advantage in foreign trade and the advantages of the economic policy of free trade. This theory of Smith is related to his conception of the international division of labor, by virtue of which every country must specialize in the production of those goods for which it has the most abundant and cheapest resources. In this way, each nation will use its own resources as efficiently as possible and, in return, will procure goods that would cost more to produce than to buy. Thus arose the idea of absolute advantage in international trade. Starting from the advantages of the division of labor between individuals and countries, especially the increase of national labor productivity, Smith recognizes the usefulness of foreign trade for each country and considers that the basis of trade between the nations of the world is the absolute advantage. climate, natural resources or labor force abundance) or an acquired one (the technology of a product or a manufacturing process), was associated by Smith with the idea of specialization. For example, one country may have favorable conditions for producing grain, such as Romania, and another may have large oil reserves, such as Saudi Arabia. According to Adam Smith's theory, the total production of both countries can be increased if Romania produces only grain and Saudi Arabia produces only oil [1, 8].

Regarding the concept of value, Source Own construction based [17], Adam Smith refers to the usefulness of goods, which is thus equivalent to the term “use value” and to the purchasing power of other goods through that good (exchange power), which he assimilates to the notion of. Value in Adam Smith's work becomes the point of gravity determined by the conditions of production, while the price represents the oscillating expression of these conditions, being influenced by conjunctural factors, especially by the relation between supply and demand. Adam Smith confirms that any commodity can have a natural price or real price expressed in labor, a term for which he prefers the synonym of value and a current price, also called nominal price or market price, expressed in money. According to the tradition of the first classical liberals, Adam Smith argued that the source of commodity value is human labor, the value of value is given by the amount of labor incorporated in the commodity, and the measure of its size is the usual working time, or spent by most producers. In general, he appreciated that money is the nominal price of goods, and labor is their real price. Thus, Adam Smith argued that only labor "is the only true and definitive standard, after which the value of all commodities can be, always and everywhere, appreciated and bought."

Through his construction, Adam Smith developed one of the most consistent formulations of the objective theory of value and price, also called labor-based value theory, in the history of economic thought.

In developing the theory of the distribution of national income, Adam Smith started from the class structure of capitalist society: workers, capitalists and landowners, who have three categories of primary income, namely salary, profit and annuity. National income was defined by Adam Smith as the part that increases a country's wealth annually, and it is created in all sectors of social production by salaried workers [13,14]. Compared to his liberal predecessors, who dealt fragmentarily with the issue of income distribution in society, Adam Smith presented an overview, trying to identify the specifics of each income category. The nature and size of the three incomes are governed by different factors, but all have as the only source the newly created value (of the work performed by the workers in all branches of social production). Adam Smith believes that all categories of income are justified. Profit and rent, although they represent deductions from the value newly created by the workers, are still naturally due to the capitalists and landowners for the efforts made and the risks assumed for the capital and the land used, respectively.

Thus, the salary is the only income that springs from one's own work, while profit and rent are the source of "foreign work". The salary is considered to be the due reward for the goods called work. Adam Smith distinguished between the nominal wage and the real wage, and showed that it does not have a constant size but is variable (influenced by the level of labor productivity, the level of economic development of the country, price dynamics, etc.), depending on the demand and supply of labor and the balance of power between workers and capitalists and considered that the wage tends to be reduced to the vital minimum (subsistence) for workers, given the tendency to reduce the rate of profit and economic growth. It also took into account a number of criteria for differentiating salaries (difficulty of work, level of training, confidence, permanent nature of the activity, etc.) [2].

Profit was first analyzed as an independent category, being considered the main expression of surplus product and the main motive of capitalist production. Its origin is found in production, being created by workers, but it rewards the capitalist for the risk assumed by investing capital. Its size depends on the amount of capital used [3]. The notion of profit existing in all spheres of social work, had in Adam Smith a double meaning: sometimes it indicates the whole surplus of new value created over workers' wages, identifying with surplus value, and sometimes includes only the part that belongs to the capitalist.

Land rent represented, according to Adam Smith's conception, a distinct economic category, a constituent part of the surplus product created, which was paid for the use of privately owned land. Although rent is also understood as a decrease in the value newly created by workers, it is considered a natural income of the owners. The size of this income is the result of the balance of power between the owner and the lessee, a ratio in which the possibilities of the latter to sell their products are decisive, which reflects the conditions of agricultural production. Adam Smith considered that unlike salary or profit, the size of which determines the price, the opposite happens with rent: although it is included in the price, its size is determined by its level [10, 13].

CONCLUSIONS

Adam Smith was a great reformer in economic, political and social terms, who, through his vast work, created a synthesis of liberal economic thought, which reflected the evolution of his time from an economic and social point of view, and is, until present, a topical landmark that has influenced and will influence many generations of economists over time.

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