



Adam Smith on Globalization

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So I went into the bookstore down in Mountain View at lunchtime in search of serendipity. The book that found me was an annotated version of Adam Smith's "The Wealth of Nations", which of course I have never read in the original. It's a fascinating read for a peak-oiler for several reasons. Firstly, it's just an engaging and well-written book. Secondly, it's still viewed as the founding text of economics, and one can see many of the thought strains that still shape that discipline already. Thirdly, it was published in 1776. The steam engine ("fire engine" to Smith) had been invented, but was very inefficient and not yet used in transportation. The spinning Jenny had been patented six years before. The industrial revolution was largely in the future. Although coal was starting to be used in bulk for heating and smelting iron, still, the fossil fuel era was only just beginning. The economy that Smith describes is largely powered by wind, water, and biomass.

I heartily recommend it to those of you who believe peak oil means a return to a pre-industrial, localized economy. Of particular interest to me was the following quote (below the fold), since I am **not** amongst those peak-oilers who think global trade is likely to end after peak oil (at least not soon).

(I'll resume the population analysis tomorrow when I have time).

Smith is discussing how trade allows a larger market, and thus more specialization and division of labor, and so greater wealth creation. He writes:

As by means of water-carriage a more extensive market is opened to every sort of industry than what land-carriage alone can afford it, so it is upon the sea-coast, and along the banks of navigable rivers, this industry of every kind naturally beings to subdivide and improve itself, and it is frequently not till a long time after that those improvements extend themselves to the inland parts of the country. A broad-wheeled waggon, attended by two men, and drawn by eight horses, in about six weeks time carries and brings back between London and Edinburgh near four ton weight of goods. In about the same time a ship navigated by six or eight men, and sailing between the ports of London and Leith, frequently carries and brings back two hundred ton weight of goods. Six or eight men, therefore, by the help of water-carriage, can carry and bring back in the same time the same quantity of goods between London and Edinburgh as fifty broad-wheeled waggons, attended by a hundred men, and drawn by four hundred horses. Upon two hundred tons of goods, therefore, carried by the cheapest land-carriage from London to Edinburgh, there must be charged the maintenance of a hundred men for three weeks, and both the maintenance, and, what is nearly equal to the maintenance, the wear and tear of four hundred horses as well as of fifty great waggons. Whereas, upon the same quantity of goods carried by water, there

is to be charged only the maintenance of six or eight men, and the wear and tear of a ship of two hundred tons burthen, together with the value of the superior risk, or the difference of the insurance between land and water-carriage. Were there no other communication between those two places, therefore, but by land-carriage, as no goods could be transported from the one to the other, except such whose price was very considerable in proportion to their weight, they could carry on but a small part of that commerce which at present subsists between them, and consequently could give but a small part of that encouragement which they at present mutually afford to each other's industry. There could be little or no commerce of any kind between the distant parts of the world. What goods could bear the expence of land-carriage between London and Calcutta? Of if there were any so precious as to be able to support this expence, with what safety could they be transported through the territories of so many barbarous nations? Those two cities, however, at present carry on a very considerable commerce with each other, and by mutually affording a market, give a good deal of encouragement to each others' industry.



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