**Adam Smith and the division of labor**

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For Adam Smith, people need to be free to receive the fruits of their labor both because it is their right and also because that will give incentives to produce more and innovate more. Increased production and innovation will generate that prosperity that brings people out of absolute poverty. They create the means to support a growing population, and a cheerful society.

**Adam Smith and the Division of Labor**

Adam Smith (1723-1790) was a Scottish thinker, professor of Moral Philosophy at the University of Glasgow, a custom officer, and generally considered the father of economics because of his *An Inquiry into the Nature and Causes of the Wealth of Nations* ([1776] 1981) (For an account of the life of Adam Smith see Ross, 1995).

After the invisible hand, the division of labor is probably the most common idea associated with Adam Smith. Both concepts have been used and abused in many different forms.

The division of labor is what opens the *Wealth of Nations*, unequivocally stating its importance for economic growth.

The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is anywhere directed, or applied, seem to have been the effects of the division of labour (WN I.i.1)

Famously, Smith recognized also the costs associated with division of labor, especially in a society in which child labor was the norm:

The man whose whole life is spent in performing a few simple operations, of which the effects too are, perhaps, always the same, or very nearly the same, has no occasion to exert his understanding, or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant ask is possible for a human creature to become? The torpor of his mind renders him, not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life. (WN V.i.f.50)

His analysis though saw that the benefits of division of labor by far outweigh its costs. For the costs, indeed, Smith sees feasible solutions, such as universal mandatory education and public diversions.

What I would like to do here is to focus on some different aspects of the division of labor and the relevance that Smith gives to them. I would like to highlight how, for Smith, labor is not just a factor of production but it is actually a worker, a person, a human being, with their motivations, incentives, and moral drive. As a consequence, the benefits of division of labor are benefits that affect not just the material growth of an economy, but they are determinant in the actual possibility of decreasing child mortality and increasing the wellbeing of people, and their happiness too. This implies that Smith offers an analysis which is both positive and normative.

Recognizing labor as people first, as well as a factor of production, is in part at the root of Smith’s strong position in favor of deregulation of the labor market so that labor could move freely both across professions and across borders. Free movement of labor increases productivity, yes, but it is also a way to recognize the individual’s capacity of choosing what it is better for themselves and their family and thus to recognize their freedom and their dignity as human beings.

It is true that “the policies of Europe, by obstructing the free circulation of labour and stock (capital, in Smith’s language) both from employment to employment, and from place to place, occasions in some cases a very inconvenient inequality in the whole of the advantages and disadvantages of their different employment” (WN I.x.c.41). But this is a two-sided problem for Smith. Regulations decrease productivity because they prevent people from moving to an activity which is more productive. Ergo the inequality. But it also presents a second problem.

Interfering with labor mobility is thus inefficient because it interferes with the natural division of labor. But the crux of his justification in favor of freedom of contracts in the labor market is the following:

The property which every man has in his own labour, as it is the original foundation of all other property, so it is the most sacred and inviolable. The patrimony of a poor man lies in the strength and dexterity of his hands; and to hinder him from employing his strength and dexterity in what manner he thinks proper without injury to his neighbor, is a plain violation of this most sacred property. It is a manifest encroachment upon the just liberty both of the workman, and of those who might be disposed to employ him. WN I.x.c.12

And his justification for freedom of movement across boarders (which in his days where parish borders) is the following:

It is often more difficult for a poor man to pass the artificial boundary of a parish, than an arm of the sea or a ridge of high mountains, natural boundaries which sometimes separate very distinctly different rates of wages in […] countries. To remove a man who has committed no misdemeanor from the parish where he chuses to reside, is an evident violation of natural liberty and justice. (WN I.x.c.58-59)

So the problem of restrictions in the labor market is that they infringe on the natural liberty of individuals and thus a problem of justice (or lack of thereof).

So we can start to see that Smith seems to merge positive with normative claims or at least that the analysis can be separate but the consequences are linked together (Carrasco & Paganelli, 2023). The most effective and the most just way to increase productivity is the same. Productivity increases if workers are let free to choose where to work. And it is also an evident violation of their liberty to prevent them from doing so which will deter a more efficient allocation of labor and thus will deter a more efficient division of labor.

Smith follows the same structure of argumentation in all his treatments of labor. When Smith describes wage determination, he place himself on the side of the workers, as opposed of the employers, again for both efficiency and moral reasons.

Workers and their “masters” have conflicting interests, he claims. Workers want high wages, and masters want low wages. The determination of the actual wages depends on the bargaining between workers and masters. But usually the bargaining power is not symmetric. Masters can hold out for much longer than workers. Workers, living basically on a day to day compensation or close to it, cannot hold out for long without devastating consequences for them and their families. This is why workers, for Smith, when they combine to ask for higher wages, usually need to have recourse to “the loudest clamour, and sometimes to the most shocking violence and outrage [to reach a speedy decision]. They are desperate and act with the folly and extravagance of desperate men, who must either starve, or frighten their masters into an immediate compliance with their demands” (WN I.viii.13) (On Smith and the Right to Resit see Rosolino, 2018). The combination of workers is thus punished by law. Masters combine too. But they do it quietly and discretely, in dinner parties or other social occasions. It is very difficult therefore to observe it. But this does not mean it does not exist. To the contrary. In addition, the laws and regulations are generally written under the influence of the masters, Smith claims, thus they do not favor worker’s requests.

But why should we care about the wages of the working poor? For several reasons, tells us Smith.

First of all because “it is but equity, beside, that they who feed, cloath, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed, and lodged” (WN I.viii.36). But most of all because “No society can surely be flousihing and happy, of which the far greater part of the members are poor and miserable” (ibid). I would like to take notice of the use of the word “happy” here. It is not an accidental use as we will see below.

Furthermore, because wages are both an indicator of a growing economy and a cause of population changes.

When there is economic growth in a society, according to Smith, there is an increase in demand for labor. The increased demand is such that masters need to compete for workers, thus breaking the cartels they otherwise would form to keep wages low. The higher wages mean that children are now an asset rather than a liability. It is not an accident, Smith says, that a widow with four children will remarry in a heartbeat in the North American colonies but not in Britain. The North American colonies are experiencing an economic boom, due to their freedom and abundance of land. Britain on the other hand is not quite a stagnant economy, but it is overregulated, both in terms of labor market and in terms of land market. Primogeniture, for Smith, puts so many unreasonable restrictions on the sale of land that it limits its productive uses and thus the possibility of growth.

The most tangible sign of the difference in economic growth is the difference in population growth. The population in Britain is said to double every five hundred years. In the North American colonies, on the other hand, the population appears to double every twenty-five years (Levy, 1978).

Population, for Smith, adjust to labor demand, which means it adjusts to economic growth, via wages (Paganelli, 2021). Where labor demand is stagnant, wages are also stagnant, and so is population growth. The increase in labor demand and wages, for Smith, has little to do with the absolute level of wealth. Britain is wealthier than its North American colonies, yet, wages are lower in Britain because Britain is not growing as much as the North American colonies are (WN I.viii.23). Similarly, China is wealthier than Britain. China is possibly the wealthiest country in the world, according to Smith at his time. Yet, its level of wealth has been the same for centuries. Smith reaches this conclusion because the accounts of Marco Polo are no different from the accounts of contemporary travelling merchants. And what these accounts describe is a common practice among the low-income groups, of exposing children in the streets at night or drowning them like puppies (WN I.viii.24). The economy is stagnant, demand for labor is stagnant, wages of the working poor are stagnant, and population growth is stagnant too. People cannot afford extra children so they dispose of them.

The situation is different in Bengal, where the East India Company imposes an amount of restrictions in the labor (and goods) market that the demand for labor is so low to keep wages “to the most miserable and scanty subsistence” (WN I.viii.26). This implies that not everyone is able to obtain work, even at that miserably low wage. People thus starve or beg and die. “Want, famine, and mortality would immediately prevail” (ibid) so much so that a fertile land experienced the death from starvation of three or four hundred thousand people in a year (ibid).

Again here Smith links economic growth with happiness. A growing economy is “cheerful”; a stagnant economy is “dull”; and a declining economy is “melancholic” (WN I.viii.43), he tells us.

Why?

Drowning your infants to death, or even having them drown like puppies by a specialized business, may not be an experience that generates much happiness. But unfortunately child mortality is the reality of poor countries, which experience little division of labor. In the highlands of Scotland, a woman would give birth to twenty children, only to see two of them grow to maturity (WN I.viii.37). The highlands of Scotland are also extremely poor due to the limited extent of the market. This implies, for Smith, that division of labor is very limited too. A person needs to be his own pin maker, his own baker, his own butcher, and his own brewer. There are no porters to be found in the Highlands, differently from London, for example. The limited size of the market limits division of labor, which limits economic growth, which in its turn limits the chance to survive. A child mortality of fifty percent is the rule in other parts of the country where economic growth is not present (WN I.viii.38).

When Smith talks about the division of labor, which is limited by the extent of the market, being the source wealth, Smith is talking about the possibilities of economic growth that take people out of absolute poverty. When markets are restricted, division of labor is restricted. And when division of labor is restricted, opulence is restricted too. And this implies that poverty and death will persist.

Having high wages is thus for Smith a priority. High wages are a mark of prosperity, a source of population growth, and, remarkably of what today we would call increasing returns to scale. High wages increase productivity and incentivize further division of labor and innovation, which increases labor demand, increases wages, and again increase productivity. And the wheel goes on.

Let’s see in details how this works.

First of all, increasing wages come from an increasing demand for labor, as we saw. That increasing demand is possible when labor market restrictions drop and when trade monopolies allow for an increasing size of the market. It is not an accident that Smith sees the discovery of the navigable routes to the East Indies and to America the two most important discovery in humankind. They expand the market and allow for division of labor, which increased demand for labor, increased wages and allowed for an increased opulence, despite the monopolies and the massacre of indigenous population.

Second of all, workers respond to incentives, according to Smith. Low wages give less incentives to work than high wages. It is true that high wages may occasionally cause an increase in leisure, but

that is should have this effect upon the greater part, of that men in general should work better when they are ill fed than when they are well fed, when they are disheartened than when they are in good spirits, when they are frequently sick than when they are generally in good health, seems not very probable (WN I.viii.45)

Yet, in Smith’s time, the idea of a backward bending labor supply, as we call it today, had a peculiar twist. Low wages were considered key to increase international competitiveness and thus to better a country’s balance of trade. In addition, poverty was often associated with natural slothfulness. Poor people are poor because they are naturally lazy. If one does not give them a reason to work, they will not; and they will spend their time in debauching activities. It is thus imperative, some of Smith’s contemporary would claim, to keep the working poor’s wages to a minimum, that is, to impose a maximum wage by law on the poor, so that they will keep working and not drinking. Smith objects these ideas (Martin, 2011).

First of all, as we saw, for Smith the division of labor is the source of opulence as it allows to develop specialized skills which increase productivity. What is relevant here to note is that for Smith specialization does not derive from comparative advantages, rather, special talents and skills are a consequence of specialization. It is indeed difficult to note any difference in talents in children before the age of six or eight, in Smith’s account. It is only after that age, the age in which children begin to work, that one starts to see differences. Those differences are the consequences of their employment or education, are the consequences of nurture not of nature, as we would say today (Peart & Levy, 2005). So for Smith nobody is lazy or slothful by nature. But “laziness” is a result of incentives.

Smith agrees that it is true that some workers who are (well) paid by piece, work only four days a week. But for Smith this is because they exhausted themselves in those four days that do not have any more energy to work the rest of the week. The higher wages induced them to work harder, not less. Higher wages increase productivity, not decrease it (WN I.viii.44). Indeed, Smith speculates, if wages were consistently higher, and work moderate, people would spread out their work overtime, thus avoiding overworking and risking of getting sick because of overwork. The more consistent work would generate more output overtime. But masters do not always “listen to reason and humanity” (WN I.viii.44).

Furthermore,

nothing can be more absurd […] than to imagine that men in general should work less when they work for themselves than when they work for other people. A poor independent workman will generally be more industrious than even a journeyman who works by the piece. The one enjoys the whole produce of his own industry; the other shares it with his master (WN I.viii.48)

For Smith indeed we work because we want to enjoy the fruits of our labor. If we are not allowed to enjoy the fruits of our labor, we have less incentives to work. It is not an accident then that the most productive labor is the self-employed one, followed by an employee paid by the piece. Below them, in terms of productivity are workers payed on a fixed salary. They are less productive because they are payed regardless of performance. His example, later in the *Wealth of Nations*, of professors of the University of Oxford, where professors only pretend to teach because they are paid regardless of their classroom performance is telling. Professors who are paid directly by students are instead better teachers and better bringers of innovation in the curriculum (WN V). Apprentices, who work for free for a few years to earn the right to then be masters, learn to be lazy not the actual trade. And, for Smith, the least productive labor of all is enslaved labor. Enslaved labor has the incentives to work as little as possible and to eat as much as possible. The enslaved individuals will do the minimum necessary to survive and nothing more. This is why, for Smith, it is the most expensive kind of labor and it can be employed only in the most profitable industry such as sugar and cotton production.

So, to conclude, liberal wages, as Smith calls them, generate the incentives to increase productivity, which gives incentives to divide labor more, and be even more productive.

The same cause […] which raises the wages of labour […] tend to increase its productive powers, and to make a smaller quantity of labour produce a greater quantity of work. The owner of the stock which employs a great number of labourers, necessarily endeavours, for his own advantage, to make such a proper division and distribution of employment, that they may enabled to produce the greatest quantity of work possible. For the same reason, he endeavours to supply them with the best machinery which either he or they can think of. What takes place among the labourers in a particular workhouse, takes place for the same reason, among those of a great society. The greater their number, the more they naturally divide themselves into different classes and subdivisions of employment. More heads are occupied in inventing the most proper machinery for executing the work of each, and it is therefore, more likely to be invented. There are many commodities, therefore, which, in consequence of thse improvements, come to be produced by so much less labour than before, that the increase of its price is more than compensated by the diminution of its quantity (WN I.viii.57)

Division of labor allows for the virtuous spiral of increasing returns kicks in, so that hopefully the economy will produce enough to support the life of all, including the ones who are not able to work. This is the miracle of the division of labor which must be accompanied by the extent of the market and freedom of movement. It lifts people out of poverty so that there is no need to “be reduced, of at least think [of being] reduced, to the necessity sometimes of directly destroying, and sometimes abandoning their infants, their old people and those afflicted by lingering diseases, to perish with hunger, or to be devoured by wild beasts” (WN intro.4).

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