Labour And 'The Wealth of Nations'

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INTRODUCTION

Adam Smith's *Wealth of Nations* (WN) has been an important point of departure for much economic literature and debate. As Coates (1975: 218) has observed, a 'multitude of ideologists and propagandists have cited him in support of their polemic campaigns' while 'innumerable scholars have sought to comprehend the meaning of his writings and to assess their significance for Smith's own and subsequent epochs'. Though the WN has influenced classical and other schools of thought, for much of its life it has been associated with neoclassical economics, *homo economicus*, and 'little more than a single principle that all trade should be free' (Rothschild: 2001: 67). However, over the last 30 years, there have been important re-interpretations of the work which has shown the WN to be more complex and encompassing (Waters 1976: 76).

Labour is an important element in a book seeking to explain the nature and causes of economic development. Indeed, the WN is a cornucopia of labour market concepts that have been further refined and developed by subsequent economists. In Smith's writings it is the development of labour, and of labour surplus, that differentiates stages of economic development. The exchange of labour surplus also spurs the need for currency but in Smith's schema it is the price of labour that continues to determine value. The division of labour, itself the product of 'surplus labour', creates productivity and 'universal opulence'. The supporter and promoter of 'high wages', Smith sees the rewards of labour as simultaneously the cause, effect and index of a nation's economic progress.

In reviewing Smith's analysis of labour this paper is broken into three substantial parts. The next section is concerned with economic development and the division of labour. This is followed by sections dealing with labour value and income distribution, and high wages and economic growth respectively. The final section is by way of summary and conclusion.

ECONOMIC DEVELOPMENT AND THE DIVISION OF LABOUR

In Smith's schema, the disposition of labour within a society denotes that society's stage in economic development. In the 'original' or 'primitive' stage all are engaged in hunting and gathering, and success on this front determines survival. However, because of the 'propensity of mankind to truck, barter and exchange one thing for another' many come to realize that they have some comparative advantage, particular skills or attributes which enable them to exchange surplus products for those of others. Thus, in a tribe of hunters ‘a particular person makes bows and arrows with more readiness and dexterity than any other. He frequently exchanges them for cattle or venison with his companions, and he finds at least that he can in this manner get more cattle and venison, than if he himself went to the field to catch them’ (WN: 23).[1] Others in the tribe excel in other areas – hut making, smithing, tanning, animal husbandry and so on, and exchange some of their surpluses. Thus, subsidence gives way to an exchange economy.

> The certainty of being able to exchange all that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men’s labour as he may have occasion for, encourages every man to apply himself to particular occupation, and to cultivate and bring to perfection whatever talent or genius he may possess for that particular species of business. (WN: 23)

Smith develops what today we may regard as a form of human capital theory in explaining the development of talents, and the exchanges that such talents permit. He does not see different competencies as resulting from differences in ‘natural’ talents. The ‘difference between the most dissimilar characters, between a philosopher and a common street porter,’ he notes ‘seems to arise not so much from nature, as from habit, custom, and education’ (WN: 24). For the most part, education is the result of that part of the division of labour into which a young person is inducted. Until the age of eight or so, Smith remarks, ‘neither parents nor play-fellows could perceive any remarkable difference’ between a would-be philosopher and street porter. However, at that age, or soon after, they come to be employed in different occupations, and then ‘the difference in the talents comes then to be taken notice of, and widens by degrees, till at last the vanity of the philosopher is willing to acknowledge scarce any resemblance’ (WN: 24).

Presaging Common’s (1909) notion of the extension of the market, Smith notes that the extent of the market limits the division of labour. Where there are little or no economies of scale, where there are ‘lone houses and very small villages … every farmer must be butcher, baker and brewer for his own family (WN: 26). Any division of labour that does take place is a limited one: carpenters must engage ‘in every sort of work that is made of wood’. He is not only a carpenter, but also ‘a joiner, a cabinet-maker, and even a carver of wood, as well as wheel wright, a plough-wright, a cart and wagon maker’ (WN: 26-7). The same is true of other

[1] Unless otherwise indicated, all references are from Book I of the WN. The quotations and references are from 1993 edition, edited by Kathryn Sutherland, and published by Oxford University Press.

trades. The development of trade routes, principally by water ways, results in a more extensive market 'opened to every sort of industry' and enables greater division in labour. The manufacturing operations located in large markets allow for the full division of labour. Thus the division of labour is not only the outcome of people's capacity to develop comparative advantages, their propensity to 'barter and truck', their ability to generate stock from surplus, their ingenuity in breaking operations into component parts, but also the outcome of favourable market conditions.

If the division of labour allow individuals to specialize and to develop their own comparative advantages, at the societal level it can be harnessed to render 'the greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgement with which it is any where directed or applied' (WN: 12). This, of course, is the division on labour on an industrial scale. Smith demonstrates 'the effects of the division of labour, in the general business of society' by way of his well-known pin factory. Here, the individual worker 'not educated to the business … nor acquainted with the use of the machinery employed in it' could 'scarce make one pin in a day, and certainly could not make twenty'. However, with the appropriate division of labour, ten men could make 'upwards of forty-eight thousand pins in a day', or 4, 8000 each (WN: 12-14).

In Smith's view, the increase of output from the division of labour is the result of three factors. In the first place, 'the improvement of the dexterity of the workman necessarily increases the quantity of work he can perform'. This dexterity is the result of 'reducing every man's business to some one simple operation'. Secondly, 'the advantage which is gained by saving the time commonly lost in passing from one sort of work to another'. Thirdly, the 'invention of all those machines by which labour is so much facilitated and abridged' (WN: 15-17). The division of labour can induce in workers either a mind to innovate or, conversely, a numbness of mind. Smith notes that a great 'part of the machines made use of in those manufactures in which labour is most subdivided, were originally the inventions of common workmen' (WN: 17). The deleterious effects of this division are discussed below.

The divisions of labour leads to 'universal opulence':

> It is the great multiplication of the productions of all the different arts, in consequence of the division of labour, which occasions, in a well-governed society, that universal opulence which extends itself to the lowest ranks of the people. Every workman has a great quantity of his own work to dispose of beyond what he himself has occasion for; and every other workman being exactly in the same situation, he is enabled to exchange a great quantity of his own goods for a great quantity of theirs. He supplies them

> abundantly with what they have occasion for, and they accommodate him as amply with what he has occasion for, and a general plenty diffuses itself through the different ranks of society. (WN: 18)

Smith's primary concern with labour is its contribution to the increasing wealth of society. This leads him to differentiate between what he termed 'productive' and 'unproductive' labour (WN Book II, chapter III). In this view, productive labour is that labour which leads to an increase in the stock of goods. Unproductive labour does not add to wealth since its value is consumed as soon as it is created:

> There is one sort of labour which adds to the value of the subject upon which it is bestowed; there is another which has no such effect. The former, as it produces a value, may be called productive; the later, unproductive labour. Thus, the labour of a manufacturer adds, generally, to the value of the material which he works upon, that of his own maintenance, and of his master's profit. The labour of a menial servant, on the contrary, adds to the value of nothing. … A man grows rich by employing a multitude of manufacturers; he grows poor by maintaining a multitude of menial servants. The labour of the latter, however, has it value, and deserves its rewards as well. (WN: 191)

Garrison (1998: 52) suggests 'the distinction between the two uses of labor is significant as a manifestation (probably the most pronounced manifestation) of Smith's bias against the present in favour of the future'. Productive labour builds up future capital, and therefore the potential for future wealth.

Economic debate on the distinction between productive and unproductive labour led to Schumpeter (1954: 631) describing it as 'as meaningless discussion … [which] became a standard item of nineteenth century textbooks in spite of the increasing awareness of its futility'. Bladen's (1960) interpretation of this distinction is particularly useful. He notes that Smith does not use 'unproductive' as a derogatory term (otherwise it would not deserve to be rewarded). Indeed, Smith points out that within 'unproductive labour' are to be found 'some both of the gravest and most important, and some of the most frivolous professions: churchmen, lawyers, physicians, men of letters of all kinds: players, buffoons, opera singers, opera dancers, etc' (WN: 192). Bladen notes that a 'crucial problem' in Smith's analysis of accumulation relates to the number of productive as opposed to unproductive workers. But, he asks, when 'menial servants' change to being 'manufacturers' how appropriate is it to describe this change as one from 'idleness' to 'industry'? He notes that for those concerned with development this is a process of 'shifting employment from relatively unproductive sector where primitive technology reigns to the more productive sector where advanced technology is apply'. 'It appears', he concludes, 'to be a problem not of productive and unproductive, but more of productive and less productive labour'. He further suggests that under-employment and full employment might be more apt expressions than 'productive' and 'unproductive' (Bladen 1960: 629).

The division of labour leads to the accumulation of capital which supports further divisions of labour Evenski (2005: 122) notes the liberating and complicating elements of this process. 'It is liberating because, by providing the resources to support an ever-finer division of labour, it takes humankind from the world of bare subsistence to a world of much richer possibilities. It is complicating because it makes the distribution of the fruits of production an issue.

LABOUR VALUE AND THE DISTRIBUTION OF INCOME

The division of labour allows for workers to specialize and to exchange their surplus. 'When', Smith writes, 'the division of labour has been once thoroughly established, it is but a very small part of a man's wants which the produce of his own labour can supply. He supplies the far greater part of them by exchanging that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men's labour as he has occasion for (WN: 31). In the absence of a medium of exchange, transactions can be cumbersome and in some cases problematic. In a barter economy, the butcher may have to transport heavy carcases of meat, similarly the brewer heavy kegs of ale. Smith writes of another problem. A butcher may have a surplus of meat, and the brewer and baker may be willing to exchange produce with him. However, if the butcher already has sufficient bread and beer, then there will be no exchange. This problem is resolved by 'a commodity few people would be likely to refuse in exchange for their produce of their industry … It is in this manner that money has become in all civilized nations the universal instrument of commerce, by the intervention of which goods of all kinds are bought and sold, or exchanged one for the other (WN: 34).

Monetary exchange, however, is based on values determined by labour input. Smith writes that the 'value of any commodity to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command. Labour, therefore, is the real measure of the exchangeable value of commodities.' He adds: 'What is bought with money or with goods is purchased by labour as much as what we acquire by the toil or our own body. …. Labour was the first price, the original purchase-money that was paid for all things. It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased; and its value, to those who possess it and who want to exchange it for some new productions, is precisely equal to the quantity of labour which it can enable them to purchase or command (WN: 36-7).

Thus, for Smith, the measure of exchange is labour value, the medium money. He notes that more often than not the value is frequently estimated by the quantity of money rather than by the quantity of labour. However, the value of gold and silver can vary while 'labour alone … never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price; money is their nominal price only' (WN: 39). For emphasis he adds: 'Labour … is the only universal, as well as the only accurate measure of value, or the only standard by which we can compare the values of different commodities at all times and all places' (WN: 42).

In the 'early and rude state of society,' the whole produce of labour belonged to labour and exchange was on the 'proportion between the quantities of labour necessary for acquiring different objects'. Thus, if it costs twice the labour to kill a beaver than it does to kill a deer, one beaver should naturally exchange for or be worth two deer. However, once stock has been accumulated and people work for wages, 'the whole produce of labour does not always belong to the labourer. He must in most cases share it with the owner of the stock which employs him.' Further, 'as soon as the land of any country has all become private property, the landlords, like all other men, love to reap whether they never sowed, and demand a rent even for its natural produce' (WN: 47-48).

Again, Smith suggests labour value determines the price of wages, profits and rents: 'The real value of all the different components parts of price, it must be observed, is measured by the quantity of labour which they can, each of them, purchase or command. Labour measures the value not only of that part of price which resolves itself into labour, but of that which resolves itself into rent and of that which resolves itself into profit' (WN: 49). This is the 'adding up' theory of value (Milgate and Stimson, 2009: 102).

Unlike his contemporary Edmund Burke (1800), who considered employment relationship to be a harmonious one since 'it is absolutely impossible that their free contracts can be onerous to either party', Smith takes a particularly pluralist view of the labour relations. 'There is in every society or neighbourhood,' he claims, 'an ordinary or average rate both of wages and profit in every different employment of labour and stock. This rate is naturally regulated … partly by the general circumstances of the society, their riches or poverty their advancing, stationary, or declining condition, and partly by the particular nature of each employment (WN: 53).

Regarding regional or neighbourhood wage differences, Smith writes that wage rates

> in a great town and its neighbourhood are frequently a fourth or a fifth part, twenty or five-and-twenty per cent higher than a few miles distance. Eighteen pence a day may be reckoned the common price of labour in London and its neighbourhood. At a few miles distance it falls to fourteen and fifteen pence. Ten pence may be reckoned the price in Edinburgh and its neighbourhood. At a few miles distance it falls to eight pence, the usual price of common labour through the greater part of the low country of Scotland here it varies a great deal less than in England. (WN: 74)

In relation to the 'peculiar nature of each employment' Smith itemizes five factors or 'inequalities': the agreeableness or disagreeableness of the employment; 'the easiness and cheapness, or the difficulty and expence of learning them'; the constancy or inconstancy of employment; the small or great trust which must be reposed in some occupations such as gold smiths; and the probability or improbability of success (WN: 96).

Leaving aside regional differences and 'inequities', Smith writes more generally that 'what are the common wages of labour depends every where upon the contract usually made between those two parties whose interests are by no means the same. The workmen desire to get as much, the masters to give as little as possible. The former are disposed to combine in order to raise, the latter in order to lower the wages of labour' (WN: 65). In the distribution of income that follows, bargaining power is not even, and it is 'not difficult to foresee which of the two parties must, upon all ordinary occasions, have the advantage in the dispute, and force the other into compliance' (WN: 74). The masters are fewer and can combine more easily. Further, while the law does not prohibit combinations of masters, combinations of workers or forbidden:

> We rarely hear, it has been said, of the combinations of masters, though frequently of those of workmen. But whoever imagines, upon this account, that masters rarely combine, is as ignorant of the world as of the subject. Masters are always and every where in a sort of tacit, but constant and uniform combination, not to raise the wages of labour above their actual rate. To violate this combination is every where a most unpopular action, and a sort of reproach to a master among his neighbours and equals. We seldom, indeed, hear of this combination, because it is the usual, and one may say, the natural state of things which nobody ever hears of. (WN: 75)

Masters also combine 'with the utmost silence' to 'sink the rate of labour' below prevailing rates. Defensive associations of labour, on the other hand, are subjected to the 'rigorous execution of those laws which have been enacted with so much severity against the combinations of servants, labourers and journeymen' (WN: 76). Thus, while combinations advantage the masters, they do little for workers and may result in the 'punishment or ruin of the ring leaders' (WN: 76).

Smith's views are not only pluralist but also accepting of confrontation. There are tensions in the relationships between masters and workers, especially concerning the division of income:

> Such combinations [of masters] are frequently resisted by a contrary combination of the workmen, who sometimes too, without any provocation of this kind, combine of their own accord to raise the price of their labour. … But whether their combinations be offensive or defensive, they are always abundantly heard of. In order to bring the point to a speedy decision, they have always recourse to the loudest clamour, and sometimes to the most shocking violence and outrage. 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. The masters upon these occasions are just as clamorous and upon the other side, and never cease to call aloud for the assistance of the civil magistrate, and the rigorous execution of those laws which have been enacted with so much severity against the combination of servants, labourers and journeymen. (WN: 66)

Though masters collude not to raise the price of labour, in an expanding economy the shortage of labour leads to masters breaking ranks. Smith considers that the rising, stationary or declining rate of growth determines the size of the wages fund available in society. He argues: 'The demand for those who live by wages cannot increase but in proportion to the increase of the funds which are destined for the payment of wages' (WN: 68). He contends that when 'the monied man' has a greater revenue than needed to maintain his own family, 'he employs either the whole or part of the surplus in maintaining one or more menial servants. Increase this surplus, and he will naturally increase the number of those servants. The demand for those who live by wages, therefore, necessarily increases with the increase of the revenue and stock of every country, and cannot possible increase without it. The increase of revenue and stock is the increase of national wealth.' (WN: 68)

In Smith's schema, it is 'not the actual greatness of national wealth, but its continual increase, which occasions a rise in the wages of labour'. England, he notes, was 'richer than any part of North America', but wages were higher in America than England because America was 'much more thriving, and advancing with much greater risibility to the further acquisition of riches' (WN: 69). He instances China as a wealthy country that 'seems to have been long stationary'. The result is low, but stationary wages. On other hand, Bengal and 'some other of the English settlements in the East Indies' were experiencing decline and as a result 'the funds destined for the maintenance of labour are sensibly decaying'. In such cases unemployment and reduced wages were the order of the day (WN: 72) Thus, 'the progressive state is the chearful and hearty state to all the different orders of the society. The stationary is dull; the declining, melancholy.' (WN: 81)

Thus, wages are both effect and symptom: 'The liberal reward of labour, therefore, as it is the necessary effect, so it is the natural symptom of increasing national wealth.' (WN: 73). The notion of advancing and declining states emphasizes Smith's divergence with mercantilist thought concerning the wealth of nations. To the later, wealth was a stock: the accumulation of bullion and other measures of value. To Smith it was a flow of goods and services. Thus, he is at pains to present countries, such as China, that have ample stocks but little vitality, or colonies such as Bengal where, notwithstanding abundant riches, economic activity and consumption were declining, as asset rich but yet economically poor countries.

Viner has noted of the WN that 'races of every conceivable sort of doctrine can be found in that most catholic book, and an economist must have peculiar theories indeed who cannot quote from the WN to support his special purposes' (Viner, 1927: 200). If this is true of the book in general, it is particularly so in relation to labour value and income distribution. In Smith's adding-up theory, value (and therefore price) was arrived at by adding the labour value of the components. It is not concerned with considerations of past labour or the labour needed to create the capital employed in the production of commodities. A commodity is worth what it can command in others (value in trade), the expenditure of effort it could save a person (value in use), or both. Thus, it is concerned with the labour that can be commanded or saved at present. Of note is the commonality, in a number of respects, with utility theory, a matter developed below.

Smith's theory of value has occupied the minds of many subsequent economists, including classical economist such as Mill and Ricardo; radical economists including Hodgskin and Marx; and neoclassical economists such as Jevons, and Marshall. If the work of the first group proved inclusive, that of the other two groups has a strong ideological bent that lead to different policy outcomes. The radical view sees labour, both past and present, as the source of all value (and wealth); the later continue in the Smith tradition of accepting profits and rents. An implication of the first is that all value should accrue to labour, and to do otherwise is to exploit labour.

Concerns with Smith's labour value theory were early voiced in Lauderdale's *Public Wealth* (1804) while Hodgskin's *Labour Defended* (1825) contained many of the arguments and conclusions more commonly associated with Marx. He differentiated between circulating capital which were wage goods, and fixed capital (stock or capital). Since the latter were the product of labour, in effect profits were labour surplus that accrued to capitalists. Milgate and Stimson note that in the introduction to his subsequent book, *Popular Political Economy* (1927) 'he asserted that the science of political economy could ascertain the differences in the productive powers of people, and since there were some classes in society, who did not labour, also explain the consequences of having allowed those few to throw off necessity and appropriate the product of the labour of others'. They add:

> He established that 'unproductiveness' of capital by claiming that since physical capital was nothing more than the private accumulated product of 'past' labour, only labour was truly productive. Accordingly, he claimed that if the product of this past labour happened to accrue to the owners of capital in the form of profit, it did so not because capital was productive but because of the legally enforceable, artificial property rights accorded to the owners of capital. (Milgate and Stimson 2009: 225)

Thus, they conclude, 'at a stroke the labour theory of value also took on a new political significance, since it was to be used by Hodgskin…to challenge both the justness of the social relations of capitalist production and the legitimacy of the political arrangements that supported them.' They further note that 'Marx, of course, was later to strike out in a different political direction from his own rendition of the labour theory of value' (Milgate and Stimson 2009: 226). Marx developed not only the notion of surplus value, but also that of alienation resulting from the de-skilling accompanying the division of labour.

Robinson (1962:7) has reminded us that economic theory, and particularly neoclassical economics, 'has always been partly a vehicle for the ruling ideology of each period as well as partly a method of science'. It is not surprising, therefore, that neoclassical economists sought an antidote to the Marxist views. As Argyrous and Stilwell point out, 'the neoclassical focus on market exchange leading to a harmonious equilibrium can itself partially be seen as a reaction to the "dangerous doctrines" of Marxism and its world-view of capitalism as inherently conflict-ridden and crisis prone' (Argyrous and Stillwell 2003: 72). One author is more strident: 'Neoclassical economics is grounded in the rejection of Marxist economics and on the belief that the market system will ensure a fair and just allocation of resources and income distribution' (Jrank 2010). Neoclassical marginalism, when applied to value theory, shifted the classical conception of value determined by the cost of production or labour theory value, to one in which the marginal utility of a good determines it price, and hence its value. As Dobb has noted, the Jevonian (marginal) Revolution is 'associated with the drawing of different boundary-lines to the economic system so that the questions of property-ownership or class relations and conflicts were regarded as falling outside the economists' domain' (Dobb 1973: 44). Neoclassicism, according to Gramm (1980: 124) 'changed the question from the classical problem of the source and determinants of economic growth to determination of relative price. Thus, the problem of exchange value, under the aegis of marginalism, is the only major value problem that has to be solved'.

Economic Growth and the Liberal Reward of Wages

Despite the advancing, stationary or declining state of the economy, and despite the one-sided nature of bargaining, Smith suggests the need for what we would call a living wage. He writes that there is a rate below which 'it seems impossible to reduce, for any considerable time, the ordinary wages even of the lowest species of labour'. He adds:

> A man must always live by his work, and his wages must at least be sufficient to maintain him. They must even upon most occasions be somewhat more; otherwise it would be impossible for him to bring up a family, and the race of such workmen could not last beyond the first generation. … Thus far at least seems certain, that, in order to bring up a family, the labour of the husband and wife together must, even in the lowest species of common labour, be able to earn something more than what is precisely necessary for their own maintenance. (WN: 76-77)

Smith's concept of a living wage has been the source of much writing (for example, Ryan (1906), Higgins (1921), Card and Krueger (1995), Noel (2006) and Stabile (2008)). Noel (2006) suggests that 'Smiths analysis of the process of wage determination provides the first full exposition of the case for a living wage. [It is an] analysis based on the role of the competitive process and is an extension of the Scholastic discussion of the elements that determined a living wage' (Clary 2009: 1064).

Stabile, in his history of economic thought on the minimum wage, argues that 'economists from Adam Smith downwards to the twentieth century supported the idea of a living wage based upon sustainability and capability of the labour force and the externality effect of not ensuring that sustainability and capability (Stabile 2008: 3-4).

Sustainability seeks to ensure that the supply of renewable resources is sustained. Smith writes of the workman's need for a subsistence wage 'otherwise it would be impossible for him to bring up a family, and the race of such workmen would not last beyond the first generation' (WN: 67). Capability is about enabling workers to develop their human capital and their social capital so that they can participate in life in a meaningful way. 'In terms of a living wage, this capability approach means workers should be given something more than sufficient nutrition to survive' (Stabile 2008: 5). Smith, wrote about the potential delimiting effects of the division of labour, and advocated as a remedy the provision of free education for children of workers which would enable them to participate ‘in the great and extensive interests of the country’ (WN: 421).

An externality is a situation where a person or a business in the pursuit of their individual self-interest creates a side effect that harms or helps someone else. As noted below, Smith considered that piecework could create externalities through overwork. He advised employers of the ‘natural need to rest’ and to ‘listen to the dictates of humanity’ (WN: 86).

Smith, sought more than the lowest wage ‘that was consistent with humanity’. Again, in contrast to other mercantilist writers, he advocated high wages and believed that society is advantaged by high rather than low wages. He contends that high wages encourage industry. ‘A plentiful subsistence,’ he writes, ‘increases the bodily strength of the labourer, and the comfortable hope of bettering his condition. … Where wages are high, accordingly, we shall always find the workmen more active, diligent, and expeditious, than where they are low’ (WN: 91).

These sentiments have overtones of what have since become known as ‘high road’ and ‘low road’ growth strategies, even when organizations adopt similar technologies. ‘High road’ companies offer good pay and benefits in the expectation of high levels of effort and productivity from employees. ‘The wages of a labour’ after all, ‘are the encouragement of industry’ (WN: 44). ‘Low road’ firms seek productivity through punitive means rather than through incentives. This results in wage savings, but usually at the expense of added disciplinary oversight and supervision (Gordon 1996).

In Smith’s view, the ‘real recompence of labour’ had improved over the preceding century. He adds that it ‘is abundantly clear’ that this should be regarded as an advantage to society:

> … servants, labourers and workmen of different kinds, make up the far greater part of every political society. But what improves the circumstances of the greater part can never be regarded as inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe 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, clothed and lodged. (WN: 78)

Smith suggests productivity gains, and the substitution of capital for labour, are further beneficial outcomes of high wages. When wages are high, there is an incentive for employers to increase productivity, including by the ‘proper division and distribution of employment’ and the supply of 'the best machinery which either he or they can think of' (WN: 81). 'There are many commodities, therefore, which, in consequence of 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', that is, the increase in the amount paid for a given quantity of labour is more than counterbalanced by the diminution in the quantity of labour required (WN: 82).

High wages motivate workers to higher output, as well as the bodily health to sustain such output:

> The liberal reward of labour, as it encourages the propagation, so it increases the industry of the common people. The wages of labour area the encouragement of industry, which, like every other human quality, improves in proportion to the encouragement it receives. A plentiful subsistence increases the bodily strength of the labourer, and the comfortable hope of bettering his condition, and of ending his days perhaps in ease and plenty, animates him to exert that strength to the utmost. Where wages are high, accordingly, we shall always find the workmen more active, diligent, and expeditious, than where they are low. (WN: 81-82)

This view is not inconsistent with consumption-led growth theories. These hold that as the propensity to consume from wages is much larger than from profits, a redistribution of income in favour of wages increases society's marginal propensity to consume (Kalecki 1971). As a result of higher consumption, there is higher capital utilization and thus an inducement to increased levels of investment (Fazzari and Mott 1986). Thus, as Smith notes, 'improvement in the circumstances of the lower ranks' should be regarded as an advantage since 'servants, labourers and workmen of different kinds, make up the far greater part of every great political society. … The liberal reward of labour is …. the cause of the greatest public prosperity' (WN: 78).

Smith's concerns for high wages, and his extolling of the divisions of labour, do not blind him to some of the pitfalls of both. He was an early exponent of the cause of occupation health. He notes that 'workmen, when they are liberally paid by the piece, are apt to over-work themselves and to ruin their health and constitution in a few years.' He contends that a carpenter in London 'is not supposed to last in his utmost vigour above eight years. Something of the same kind happens in many other trades, in which the workmen is paid by the piece; as they generally are in manufactures, and even in country labour, wherever wages are higher than ordinary. Almost every class of artificers is subject to some peculiar infirmity occasioned by excessive application of their peculiar species of work' (WN: 82).

Unlike other writers who considered workers were disposed to indolence, Smith writes of the need for relaxation, rest, indulgence and sometimes dissipation as a 'call of nature' which, if not complied with, 'the consequences are often dangerous, and sometimes fatal.' Rather than needing to compel these workers to greater efforts, 'if masters would always listen to the dictates of reason and humanity, they have frequently occasion rather to moderate, than to animate the application of many of their workmen (WN: 83).

If liberal piece rates endanger the body, the division of labour can numb the mind. Smith notes that the 'great body of people comes to be confined to a few very simple operations'. He adds:

> The man whose whole life is spent in performing a few simple operations, of which the effects are few …. 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 as it is possible for a human creature to become. The torpor of his mind renders him, not only incapable of relishing or bearing a part of any rational conversation, but on conceiving any generous, noble or tender sentiment, and consequently of forming any just judgements concerning many even of the ordinary duties of private life. Of the great and extensive interests of his country, he is altogether incapable of judging; and unless very particular pains have been taken to render him otherwise, he is equally incapable of defending his country in war. (WN: 430)

Smith's antidote for this situation was the instituting of public education.:

These views on wages and recreation differentiate Smith from his contemporaries and evidence his regard for workers. Mercantilist orthodoxy placed emphasis on low wages, and the maintenance of a 'multitude of laborious poor' (Mandeville 1924: 287). The 'lower classes' were not only 'thought to be crude, ignorant, and inclined to riotous behaviour, but they were above all seen to be inclined to idleness. Only the constant pressure of misery saved them from idleness' (Rimlinger, 1976: 335). Mercantilist writers strongly held 'the view that high wages were equivalent to low production' (Brentano 1894: 2-3). 'Everyone but an idiot', wrote Young (1771), knows that the lower classes must be kept poor or they will never be industrious'. Smith does not consider high wages as a source of idleness but rather as 'the encouragement of industry which, like every other human quality, improves in proportion to the encouragement it receives' (WN: 81). Idleness, in Smith's view, was not something that workers were predisposed to, but rather the product of poor management. "Where wages are high, accordingly, we shall always find the workmen more active, diligent, and expeditious, than where they are low' (WN: 81). In this view, it was not the idleness of workers, but rather that of wealth owners which lead to reduced economic growth. 'The general character of the inhabitants as to industry or idleness' Smith writes, 'is related to the proportion of the income the wealthy spend on capital and on consumption' (WN: 318-9). The former promotes growth, the latter does not. A combination of excessive consumption by the rich and of low wages paid to the poor, was a threat to economic growth.

CONCLUSION

The Wealth of Nations is an important tome in the history of political economics, a tome that has withstood the test of time. Smith sees labour as the source of value, and its division the engine of growth. He views the labour relationship from a pluralist perspective, and does not shy away from the conflict that such a view accepts as part of industrial life. He is a supporter of high wages since high wages lead to a better life for all and to further prosperity. He is mindful of the subsistence needs of workers if their race is to be sustained. He did not see poverty as an antidote to idleness, but rather considered that good wages resulted in more active and industrious workers. He displayed empathy for the working class and saw the role of political economy as providing 'a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves. (WN: 121).

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