Chapter 6

The division of labor

Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations* was published on March 9, 1776. It had been in the works for over a decade, and Smith—who was by now the celebrated author of the highly acclaimed 1759 *Theory of Moral Sentiments*—found himself the object of a great deal of anticipation. The leading thinkers of the day knew Smith had been working on a magnum opus, and they had heard hints and suggestions about what might be in it. But he had been working on it so long that the anticipation had grown to worrying heights, since those who had been so impressed by TMS began to worry that its author could not equal his accomplishment in his first book.

The reactions to the publication of WN were swift and, among the principals of the Scottish Enlightenment, highly laudatory. Here is David Hume's reaction:

> *Euge! Belle! Dear Mr. Smith: I am much pleas'd with your Performance, and the Perusal of it has taken me from a State of great Anxiety. It was a Work of so much Expectation, by yourself, by your Friends, and by the Public, that I trembled for its Appearance; but am now much relieved. Not but that the Reading of it necessarily requires so much Attention, and the Public is disposed to give so little, that I shall still doubt for some time of its being very popular: But it has Depth and Solidity and Acuteness, and is so much illustrated by curious Facts, that it must at last take the public Attention.*
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> (Smith, 1987: 150)

Here is Hugh Blair (1718–1800), Moderator of the General Assembly of the Church of Scotland and Professor of Rhetoric at the University of Edinburgh: "You have given me full and Compleat Satisfaction and my Faith is fixed. I do think the Age is highly indebted to you, and I wish they may be duly Sensible of the Obligation" (Smith, 1987: 151). William Robertson (1721–93), eminent historian and Principal of the University of Edinburgh: "You have formed into a regular and consistent system one of the most intricate and important parts of political science, and [...] I should think your Book will occasion a total change in several important articles in police and finance" (Smith 1987: 153). And Adam Ferguson (1723–1816), Professor of Moral Philosophy at the University of Edinburgh and author of the 1767 *Essay on the History of Civil Society*: "You are surely to reign alone on these subjects, to form the opinions, and I hope to govern at least the coming generations" (Smith, 1987: 154). Somewhat later, Thomas Malthus (1766–1834), author of the 1798 *Essay on the Principle of Population*, went so far as to claim that Smith's WN "has done for political economy, what the *Principia* of Newton did for physics" (1986: 257).

By the middle of the nineteenth century, WN was regularly cited in the British parliament—in debates about its Corn Laws, for example—and its recommendations of free markets and free trade went on to have great influence in the subsequent political and economic developments not only of Britain, but also of most of the Western and even parts of the Eastern world. Smith's influence on the founding of the United States in particular was also pronounced. Among his readers were Benjamin Franklin (1706–90), George Washington (1732–99), Thomas Paine (1737–1809), and Thomas Jefferson (1743–1826). When compiling "a course of reading" in 1799, Jefferson, for example, included WN along with John Locke's 1690 *Second Treatise of Government* and Condorcet's 1793 *Esquisse d'un tableau des progrès de l'esprit humain* as the essential books (Rothschild, 2001: 4). The English historian Henry Thomas Buckle (1821–62) wrote that WN "is probably the most important book that has ever been written," including the Bible (Skousen, 2001: 20).

What could Smith's book have accomplished to warrant such high praise?

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The main questions Smith set himself to explain were captured in the full title of the book. He wanted to know, first, wherein genuine or true wealth consisted, and, second, what had enabled some countries to grow in wealth where others had not. WN is a long and wide-ranging book, discussing everything from where prices come from to trade policy to public debt. Smith was able to get figures for things like grain production in several countries of Europe for several centuries—no small feat in an era without an internet, without computers, without telephones, and without electricity. His method was relatively simple, and might strike us today as obvious; in his day, however, it was revolutionary. He wanted to compare the production over time of various goods (like corn, for example), and then track them according to the policies the respective countries had in place over the same periods. Were there patterns that could be discovered? That is, were periods of increasing production and prosperity correlated with specific policies, and decreases correlated with other specific policies? If so, then perhaps hypotheses could be formulated: "Policies like X, Y, and Z lead to increasing production and prosperity, while policies like A, B, and C lead to decreasing production and prosperity." The next step would be to gather further empirical data against which hypotheses like these could be tested; if further data confirmed them, then a recommendation could be made: "Pursue policies like X, Y, and Z, and avoid policies like A, B, and C."

After surveying the evidence that he could gather, Smith came to the conclusion that the primary factor in explaining why some places were increasing in wealth was the division of labor. That might seem like an underwhelming conclusion. What about natural resources? What about infrastructure? What about education? What about technology? Smith had considered these possibilities, but he discovered that they did not account for the differentials in wealth he was observing. Take natural resources: there were some places rich in natural resources, like China, but that overall were not wealthy; and there were places relatively poor in natural resources, like Holland and Britain, but wealthy. Factors like infrastructure, education, and technology Smith argued were in fact functions of wealth, not originators of it. In other words, places that were already generating wealth could afford better infrastructure, could afford more formal education, and could capitalize on technological advances; places that were not already wealthy struggled to develop or take advantage of these things. And to Smith's great credit, he also did not think that racial distinctions played any role. That was an explanation that would have been ready to hand in the eighteenth century (and in the nineteenth century as well—Darwin, for example, took "natural" distinctions among human races seriously in his 1871 *Descent of Man*). But Smith believed that all human beings were relatively equal in their motivations and abilities, and thus policies that worked in one country or in one culture would, or should, work in others as well.

So what did Smith think the division of labor would accomplish? Before addressing this question directly, we need to understand what Smith meant by "wealth." Here too Smith was offering a new account. In the eighteenth century, the reigning economic theory came from a school of economic thought called Mercantilism, which held that wealth consisted in gold or other pieces of metal. The more gold a country has, according to Mercantilism, the wealthier it is; the less gold, the less wealthy. Given that theory, countries often implemented trade restrictions. If British citizens bought, say, wine from France, the British would get wine but the French would get gold. If wealth consists in gold, however, that would mean that Britain is getting poorer relative to France, which is getting wealthier. Thus Britain might be inclined to place restrictions on trading with other countries: Britain would want its citizens to *sell* to other countries, but not to *buy* from them. Because other countries would reason similarly, there would be a mutual contest to implement as many trade restrictions as possible, with the result that overall trade would decrease.

Smith argued, by contrast, that wealth does not consist in pieces of metal; it consists rather in the relative ability to satisfy one's needs and desires. "Every man," Smith wrote, "is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life" (WN: 47). Because the "far greater part of them he must derive from the labour of other people," Smith continued, "he must be rich or poor according to the quantity of that labour which he can command, or which he can afford to purchase" (ibid.). Thus Smith claims that we are rich or poor according to whether we have the means to accomplish our ends, whatever they are; true wealth, then, is the relatively higher satisfaction of our ends. What the Mercantilist forgets is that when British citizens buy wine from France, they do give up gold, *but they get the wine*—and that is what they wanted. Thus their situations are improved, according to their own lights, and that means they are relatively wealthier on Smith's definition of wealth. Understanding wealth in this way enabled Smith to explain why people would part with pieces of metal for goods or services: if they were not thereby benefitted, why would they have done so? Since each person always wishes to "better his own condition" (WN: 343), the argument of WN is that those policies and public institutions should be adopted that best allow each of us to do so. In this case, it means lowering trade barriers and encouraging free and open trade, even between people of different countries.

What does this have to do with the division of labor? Smith claims that dividing the labor required to complete a task enables a far greater production. Consider Smith's now-famous example of making pins. Smith says that a pin-maker could, if he is a master at it, make no more than twenty complete pins in a day. A shop of ten such pin-makers could thus make 200 pins per day, if they each made one pin at a time from start to finish. If the various tasks involved in making pins are divided, however, with different people specializing on individual tasks—"One man draws out the wire, another straightens it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head" (WN: 15), and so on—the overall production of pins increases dramatically. Smith argues that division of labor will lead to specialization. Specialization, in turn, leads to increasing quantity of production because of three factors: first, "the increase of dexterity in every particular workman"; second, "the saving of the time which is commonly lost in passing from one species of work to another"; and, third, "the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many" (WN: 17). These three factors, and in particular the last one—innovation—lead, Smith claims, to a "great increase of the quantity" in production. In fact, Smith claims that that same ten-person pin-making shop could, if it divides the labor and allows specialization, make upwards of 48,000 pins per day, or the equivalent of 4,800 pins per person. That is an increase in production of 23,900%!

Now, of course, the pin-makers do not need 4,800 pins per day themselves, so what do they do with the surplus? They sell it. As the number of pins available in the market thus increases, the prices will decrease, which means that more and more people will be able to afford them. As division of labor spreads to other industries, the result will be the same: more and more goods (and services) available in the market, with ever-decreasing prices. This means more and more people will be able to afford more and more means to satisfy their ends, which means the overall wealth of the society will increase. And if British shops make more pins than British citizens need, the surplus pins can be sold to people in other countries, making both groups better off. Here are the steps in Smith's story of wealth:

Step One: The labor is divided.

Step Two: Production increases.

Step Three: Increasing production leads to decreasing prices.

Step Four: Decreasing prices leads to increasing standards of living.

That's it. That is the core of the argument Smith makes, capturing the essential elements he gleaned from his survey of centuries of human history across more than a dozen countries.

Here is Smith's summary of his argument, which comes not ten pages into his over-1,000-page WN:

> *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, or, what comes to the same thing, for the price of 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 all the different ranks of society.* (WN: 22)

There are several elements of this passage that should be emphasized. First, it highlights the extensive cooperation and interdependence that arises in markets: we all become dependent on one another to supply what we have "occasion for." For Smith, this is a cause of celebration. Far better to view others—including people from other countries, who speak different languages, who practice different religions, who are of different races, and so on—as opportunities for mutual benefit rather than as enemies to be feared. Second, Smith speaks of "universal opulence," "general plenty," and of the common "workman." All of these emphasize Smith's primary concern, namely, the least among us. He is interested to understand how the poor can raise their estate. Pharaohs, emperors, kings, and aristocrats have long been able to take care of themselves, and would continue to do so; Smith is worried instead about the everyday common man.

Third and finally, note Smith's qualifier "in a well-governed society." What constitutes a "well-governed society"? We will flesh this out in more detail in Chapter 10, but we can infer from what Smith has argued so far that a "well-governed society" is one in which the division of labor is allowed to proceed, and in which people are able to trade or sell away their surplus. What is needed for that? Here we can draw on what Smith argued in TMS was the core of his conception of "justice," namely the 3 Ps: the protection of person, property, and promise. When everyone, even the least among us, is protected in his person, his property, and in the promises made both by him and to him, then he has the security to increase his production as well as the liberty to work, sell, buy, trade, negotiate, and associate as best he can in seeking to "better his condition." In that case, ventures will be launched, labor will naturally divide itself, and all the gains from the rest of Smith's story of wealth will ensue.

Thus Smith's argument is that a country that wants to increase its wealth and enable its citizens to prosper must enact policies that enable the division of labor, the increase of production, the decrease of prices, and the resulting increase in standards of living. His larger political-economic argument then proceeds on the basis of three linked arguments, which we might call the *Economizer Argument*, the *Local Knowledge Argument*, and the *Invisible Hand Argument*. We discuss the first two of these in the next chapter, and the third in the following chapter.