'UNIVERSAL OPULENCE': SMITH ON TECHNICAL PROGRESS AND REAL WAGES

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The purpose of this paper is, firstly, to consider the character of Smith's account of division of labour as a theory of technical progress. To the extent that Smith's account does entail a vision of liberal or competitive commercial society as exhibiting ongoing technical progress, this must have implications for income distribution through time. The further purpose is therefore to consider, in particular, Smith's conception of the course of real wages in competitive commercial society, and how this connects with his view of technical progress. A way of reconciling Smith's theory of real wages and his prediction of high and rising real wages over time is suggested.

Apart from the famous (or infamous) 'invisible hand', the concept with which Adam Smith is most commonly associated is 'division of labour'. The purpose of what follows is, firstly, to consider the character of Smith's account of division of labour as a theory of technical progress. To the extent that Smith's account does entail a vision of liberal or competitive commercial society as exhibiting ongoing technical progress, this must have implications for income distribution through time. The further purpose of what follows is therefore to consider, in particular, Smith's conception of the course of real wages in competitive commercial society, and how this connects with his view of technical progress. The first three sections examine, in turn, Smith's account of division of labour; his theory of real wages; and his conception of opulence in commercial society. The final section suggests a way of reconciling Smith's theory of real wages and his prediction of high and rising real wages over time.[1]

1. Division of Labour and Technical Progress

The causal significance of division of labour for labour productivity growth is announced in the very first sentence of *WN*, book I, chapter I:

> The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is any where directed or applied, seem to have been the effects of the division of labour.
>
> (*WN*: 13)

It is then systematically discussed over the first three chapters of the book.[2] In a nutshell, division of labour is specialization of labour in production processes, motivated by the consequent productivity gains: 'The separation of different trades and employments from one another, seems to have taken place, in consequence of this advantage', 'a proportionable increase of the productive powers of labour' (*WN*: 15). As Richardson (1975) well argues (also Sylos-Labini 1976: 200, 225–6), the dynamics of division of labour and the associated technical change constitute a second dimension of competition, additional to convergence of market prices towards natural price, both deriving from the same driving force: the desire for material self-betterment. The scope for these productivity gains is much more to be found in manufacture than agriculture, and they arise from three sources: improved labour dexterity, time-saving from no longer shifting between tasks, and introduction of, or innovations in, machinery.[3] In chapter II it is presented as the 'very slow and gradual' consequence of a uniquely human, natural 'propensity to truck, barter, and exchange one thing for another', 'not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion' (*WN*: 25; *cf.* 29–30; also *LJA*: 347, 348–9, 351; *LJB*: 492–3; *edWN*: 570–71).[4]

In Smith's conception of the dynamics of this technical change, division of labour is causally connected with two phenomena: labour productivity growth ('improvement in the productive powers of labour') on the one hand and 'extent of the market' (book I, chapter III) on the other. It is 'the power of exchanging' that 'gives occasion' to division of labour; so that 'the extent of this division must always be limited by the extent of that power, or, in other words, by the extent of the market' (*WN*: 31; also *LJA*: 355–6; *LJB*: 494; 1st Fragment).[5] The division of labour is most evident, and most highly realized for goods or services of limited transportability, in cities (*WN*: 31–2). But there is wider division and more extensive markets as well, including international division of labour: 'such ... are the advantages of water-carriage, it is natural that the first improvements of art and industry should be made where this conveniency opens the whole world for a market to the produce of every sort of labour' (*WN*: 34; also 2nd Fragment). International free trade favours opulence, by enabling the dynamic benefits from greater extension of markets and hence also greater division of labour (*WN*: 446–8, 680–81; *LJA*: 390–2; *LJB*: 512–13, 529; *edWN*: 562, 577; *cf.* Stewart 1811: 343). Hence improvements in the ease and cost of transportation, by extending potential markets, enables extension of division of labour and its benefits (*WN*: 32–4; *LJA*: 356; *LJB*: 494; 1st Fragment: 583; 2nd Fragment). Smith does not think it an accident that civilization began in the countries bordering the Mediterranean, and that the most materially developed parts of Asia exhibit similar advantages of water transportation (*WN*: 34–6; 2nd Fragment).

The causality between specialization, productivity and scale in the division of labour dynamics is not straightforward. Productivity growth certainly is the effect of which specialization is the cause; but does growth of the market cause specialization or does specialization cause the growth of exchange and of markets? In book I, chapters I–III (esp. chapter III) the former direction of causation might seem intended; but this is not so unambiguously stated. The process could be thought of as a kind of interplay between the two phenomena, a mutual rather than one-way causation. The scope for labour specialization is limited by the scale of production; but this proposition is possibly consistent with, for example, productivity growth arising from increased specialization, in some manner simultaneously extending the market, via the resulting growth of incomes sustaining demand growth in line with the associated growth of potential output.[6] Hence in the homely examples of specialization and extension of exchange at *WN*: 27–8 (also in *edWN*: 572), the latter appears to proceed from the former. On the other hand, a very similar illustration in *LJA* (348; *cf.* 351–2; also *LJB*: 493) concludes that 'the certainty of being able to exchange the surplus produce of their labours in one trade induces them [savages] to seperate themselves into different trades'. This implies that marketability induces or enables specialization, though this example actually begins from a kind of accidental specialization. (Very similar formulations concerning the role of 'certainty of being able to exchange' appear at *WN*: 28 and *edWN*: 572.) Likewise, further on in the same text we are told that '[t]he being of a market first occasioned the division ... of labour, and the greatness of it is what puts it in ones power to divide it much' (*LJA*: 355; also 356). The same logic is evident in the 1st Fragment (582) and in the opening pages of *WN*, book II (277). These formulations suggest that Smith rather favours a one-way causation from market opportunities to specialization, so that the process appears as *demand-led*: it is the growth of market demand which drives extension of specialization and hence productivity growth. This is a dynamic not at all akin to the supply-led vision of later marginalist economics, in which commodity and input demands ultimately accommodate supplies of 'factors of production'.

Beyond the first three chapters, the most systematic consideration of division of labour in *WN* occurs in book V, chapter I (781–8) where, in the context of discussing public provision for education, Smith paints a dismal picture of the impact of division of labour on the labourer. We leave this issue aside here (see Aspromourgos 2009: 139–40, 146), except to note that, put bluntly, it amounts to suggesting that the growth of labour productivity from division of labour is due to its making labourers like machines, with associated ill consequences for their intellectual and physical constitution, and their sensibilities (*cf. WN*: 684, on slaves as machines). (Smith's proffered remedy is education.) It is this, really, which makes labour specialization partly *cause* the invention of new machines: the resulting increase in the simplicity and repetitiveness – indeed, in the mechanical nature – of labour activity provides increasing scope for labour to be replaced with machines, including in this process the workers themselves perceiving potential innovations in machinery.[7] The point is cast in sharp relief by Ferguson (1767: 280): 'Manufactures ... prosper most, where the mind is least consulted, and where the workshop may, without any great effort of imagination, be considered as an engine, the parts of which are men'.

Campbell and Skinner (1976: 43, 48–9; also Groenewegen 1977: 395–7; Rashid 1998: 21–3, 27) suggest that placing so much emphasis upon the division of labour dynamics led Smith to underrate the importance of machinery ('mechanization') for productivity growth. Perhaps there is some truth in this, but these two phenomena are intimately intertwined in Smith's accounts:

> The annual produce of the land and labour of any nation can be increased in its value by no other means, but by increasing either the number of its productive labourers, or the productive powers of those labourers who had before been employed. The number of its productive labourers, it is evident, can never be much increased, but in consequence of an increase of capital, or of the funds destined for maintaining them. The productive powers of the same number of labourers cannot be increased, but in consequence either of some addition and improvement to those machines and instruments which facilitate and abridge labour; or of a more proper division and distribution of employment. In either case an additional capital is almost always required. It is by means of an additional capital only that the undertaker of any work can either provide his workmen with better machinery, or make a more proper distribution of employment among them.
>
> (*WN*: 343; also 676)[8]

It is not, in any case, a meaningful question to ask – what has been the contribution to productivity growth of changing or increased labour skills, versus the contribution of new machinery? – unless those contributions are separable and additive, which they are not. The same kind of error concerning the contribution to growth of capital versus division of labour lies behind the thesis that 'the role of capital came to dominate ... [*WN*], and ... to replace the division of labour as the major influence on growth' (Bowley 1975: 361; also 367–8, 372–4). Both capital accumulation and division of labour are necessary to rising output per worker. Furthermore, new divisions of labour and introduction of new machinery are generally two sides of the same coin, technical progress being simultaneously embodied in both. They are not independent factors in productivity growth. (The only sense in which capital may be given a priority is that growth without division of labour dynamics is conceivable; growth without capital accumulation is not.) And certainly, Smith's conception of division of labour – as an ongoing dynamic process in which technical change involves reduction in direct labour inputs required per unit of outputs across the board – is to be regarded as technical progress: there will then be unambiguously higher net product per worker for any and every commodity.[9] But allowing also the possibility that some natural scarcities may become more binding as economies grow, as Smith certainly does (esp. *WN*, book I, chapter XI), muddies this neat picture. Labour productivity in some sectors will then be falling, as labour productivity rises in others, the competing consequences of natural scarcity and human ingenuity.

2. The Theory of Real Wages

If Smith's division of labour is ongoing technical progress, it must be associated with functional income distribution changing in some manner, and likewise in an ongoing way. Our interest here is particularly in the implications for real wages. With regard to the theory of wages in liberal commercial society, Smith takes his bearings from what he perceives as a certain analogy between natural commodity prices and the natural or normal remuneration of ordinary labour. The money value of the customary subsistence real wage is conceived of as the analogue for labour of the cost of production for commodities. It is the cost of (re)production of labourers, but including in this, the cost of altering population size in accord with the dictates of labour demand:

> the demand for men, like that for any other commodity, necessarily regulates the production of men; quickens it when it goes on too slowly, and stops it when it advances too fast. It is this demand which regulates and determines the state of propagation in all the different countries of the world ... . The wages paid to journeymen and servants of every kind must be such as may enable them, one with another, to continue the race of journeymen and servants, according as the increasing, diminishing, or stationary demand of the society may happen to require.
>
> (*WN*: 98; also 162, 180, 568)

> The wages of the inferior classes of workmen ... are every where necessarily regulated by two different circumstances; the demand for labour, and the ordinary or average price of provisions. The demand for labour, according as it happens to be either increasing, stationary, or declining; or to require an increasing, stationary, or declining population, regulates the subsistence of the labourer, and determines in what degree it shall be, either liberal, moderate, or scanty. The ordinary or average price of provisions determines the quantity of money which must be paid to the workman in order to enable him, one year with another, to purchase this liberal, moderate, or scanty subsistence.
>
> (*WN*: 864 and *passim* to p. 876; *cf.* 103)

To this account of inferior wages, Smith adds a theory of competitive wage relativities under five principal heads, to determine normal wage rates in general (*WN*, book I, ch. VIII, esp. 85–6, with ch. X, esp. 116–35). Bargaining power, expressed especially, though not exclusively, in the (im)balance of labour demand and supply, explains deviations of wages away from normal rates. But also, importantly, bargaining power enters as well into the explanation of the magnitude of the subsistence wage, as it differs between expanding, stationary and contracting economies:

> When in any country the demand for those who live by wages; labourers, journeymen, servants of every kind, is continually increasing; when every year furnishes employment for a greater number than had been employed the year before, the workmen have no occasion to combine in order to raise their wages. The scarcity of hands occasions a competition among masters, who bid against one another, in order to get workmen, and thus voluntarily break through the natural combination of masters not to raise wages.
>
> (*WN*: 86)

> In a year of sudden and extraordinary plenty, there are funds in the hands of many of the employers of industry, sufficient to maintain and employ a greater number of industrious people than had been employed the year before; and this extraordinary number cannot always be had. Those masters, therefore, who want more workmen, bid against one another, in order to get them, which sometimes raises both the real and the money price of their labour.
>
> The contrary of this happens in a year of sudden and extraordinary scarcity. The funds destined for employing industry are less than they had been the year before. A considerable number of people are thrown out of employment, who bid against one another, in order to get it, which sometimes lowers both the real and money price of labour.
>
> (*WN*: 103–04; also 83–91, 97–9, 101)

This is to make the subsistence real and money wage too elastic or flexible a concept to be a plausible anchor for actual wages, analogous to commodity natural prices as an anchor for market prices (see also *WN*: 91–7). In particular, insofar as it varies with the three alternative growth possibilities, this purported anchor is not independent of supply-and-demand imbalances.[10] Subsistence in Smith cannot serve to determine real wages, even in the long run. The capacity of real wages to be unmoored from minimum subsistence requirements manifests itself also in his treatment of wages and tax incidence. As indicated above, money wages of 'the inferior classes of workmen' are determined by the growth rate of labour demand, which determines whether subsistence will be 'liberal, moderate, or scanty', together with the 'ordinary' money prices of the relevant subsistence commodities. He infers: 'While the demand for labour and the price of provisions, therefore, remain the same, a direct tax upon the wages of labour can have no other effect than to raise them somewhat higher than the tax'.[11] Since wages are advanced as part of capital, the increase in prices, as a result of the tax-induced higher wage costs, will be even greater than the increase in wage cost, since there must be also additional profits paid in relation to the higher wage capital. Smith expects the incidence of such taxation to fall upon commodity prices and/or rents, unless the tax feeds back negatively on growth and thereby reduces real wages (*WN*: 864–5; also *WN*: 466, 508; *LJA*: 359–63; *LJB*: 496–7).

Furthermore, to the extent that wage differentials relative to the wages of the lowest classes of labour are a compensation for costs of acquiring labour skills (as well as disagreeableness and risk, among other factors), the notion of these higher wage rates as also necessary costs, from Smith's standpoint, is entirely plausible. Hence Smith adds:

> The recompence of ingenious artists and of men of liberal professions ... necessarily keeps a certain proportion to the emoluments of inferior trades. A tax upon this recompence, therefore, could have no other effect than to raise it somewhat higher than in proportion to the tax. If it did not rise in this manner, the ingenious arts and the liberal professions, being no longer upon a level with other trades, would be so much deserted that they would soon return to that level.
>
> (*WN*: 866)[12]

Putting aside the possibility of these taxes finally falling upon rents, the influence of taxes on money wages, in order to maintain a definite purchasing power of the after-tax wage (and with given wage relativities), therefore feeds through to higher commodity prices, via the impact upon wage costs and hence also capital and profits per unit of outputs.[13]

When Smith turns subsequently to consider direct taxes on consumption goods, he distinguishes their incidence, depending upon whether they are imposed on necessities or luxuries. A tax on necessaries 'operates exactly in the same manner as a direct tax upon the wages of labour' (*WN*: 871).

> It is otherwise with taxes upon ... luxuries; *even upon those of the poor*. The rise in the price of the taxed commodities, will not necessarily occasion any rise in the wages of labour. ... The high price of such commodities does not necessarily diminish the ability of the inferior ranks of people to bring up families. Upon the sober and industrious poor, taxes upon such commodities act as sumptuary laws, and dispose them to either moderate, or to refrain altogether from the use of superfluities which they can no longer easily afford. ... Any rise in the average price of necessaries, unless it is compensated by a proportionable rise in the wages of labour, must necessarily diminish more or less the ability of the poor to bring up numerous families, and consequently to supply the demand for useful labour ... . Taxes upon luxuries have no tendency to raise the price of any other commodities except that of the commodities taxed. Taxes upon necessaries, by raising the wages of labour, necessarily tend to raise the price of all manufactures ... . Taxes upon necessaries, so far as they affect the labouring poor, are finally paid, partly by landlords in the diminished rent of their lands, and partly by rich consumers ... in the advanced price of manufactured goods ... .
>
> (*WN*: 871–3; emphasis added; also 874–6, 885–6, 888, 905–06, 936, 938)[14]

This seems a strangely flawed argument. Once it is allowed that the real wage includes an above-subsistence component, the idea that a rise in the money price of subsistence commodities – whether due to taxation or any other persistent cause – will necessarily lead to a compensating rise in money wages loses force. For once there is non-necessary consumption included in the real wage, a rise in subsistence prices can be as much accommodated by a reduction in luxury consumption, as can a rise in luxury prices. What would make the argument work is to suppose, in a situation of heterogeneous labour, that the lowest class of workers earns a wage just equal to the value of subsistence, and therefore has a level of consumption with no luxury component. Other kinds of labour earn wages which include above-subsistence consumption, with the wage relativities determined by one or more of the five factors Smith offers to explain wage differences (e.g., the degree of 'trust' required – *WN*: 122). A rise in the prices of subsistence commodities would raise the money wages of the lowest class of workers, in order to preserve their capacity to purchase subsistence, and this would flow on to all wages, in order to preserve competitive relativities. But against this suggested resolution, Smith seems in the above quotation to be conceiving of non-necessaries as consumed even by the lowest-income workers (see also *WN*: 888). In summary, the possibility and reality of natural real wages above customary subsistence, even for the lowest-paid workers, is clearly allowed for in Smith's political economy of commercial society. One may note also in this regard Smith's view that accumulation can be undertaken by even lowly wage workers, in least in principle (see Aspromourgos 2009: 319–20, notes 41, 44).

3. Commercial Society and 'Universal Opulence'

'Opulence' is the ultimate normative purpose of political economy for Smith: '[i]t proposes to enrich … the people' (*WN*: 428). But what precisely *is* opulence? A defining characteristic is offered at *WN*: 209–10, where 'real opulence' is illustrated by the 'very rich' societies of Holland and Genoa, 'opulence and prosperity' being coupled together, and contrasted with 'poverty and distress'. It is division of labour which brings about the rising output per worker which, at least in 'well-governed' societies, effects a '*universal* opulence which extends itself to the lowest ranks of the people', so that 'a general plenty diffuses itself through all the different ranks of the society' (*WN*: 22; emphasis added; also 25, which speaks of 'general opulence', 35). The causal connection between opulence and division of labour is also explicit in *edWN* (564–6, 570, 572, 577), and extensively treated in *LJ* (*LJA*: 342–3, 349–50, 355–6, 390–92; *LJB*: 489–92, 494). In short, opulence is high consumption – and universal or general opulence is the extension of high consumption to all of society in general. Hence, consumption per worker is 'more liberal in a society advancing to opulence than in one that is standing still' (*WN*: 53; *cf.* 88). The chapter 2 title in *edWN* strikingly parallels the title of *WN*: 'Of the nature and causes of *public* opulence' (562; emphasis added); wealth understood as consumable output, and opulence, are (almost) one and the same thing. It is in *edWN* that perhaps the most vigorous enunciation of general opulence as the standard for judging economic development is to be found:

> in an opulent and commercial society labour becomes dear and work [i.e., output] cheap … . The high price of labour is to be considered not meerly as a proof of the general opulence of society which can afford to pay well all those whom it employs; it is to be regarded as what constitutes *the very essence* of public opulence, or as *the very thing in which public opulence properly consists*. That state is properly opulent in which opulence is easily come at, or in which a little labour, properly and judiciously employed, is capable of procuring any man a great abundance of all the necessaries and conveniencies of life. … National opulence is the opulence of the whole people, which nothing but the great reward of labour, and consequently the great facility of acquiring, can give occasion to.
>
> (*edWN*: 567; emphasis added; also 575)[15]

While productivity growth from division of labour *enables* general opulence, it is all the conditions for high output and labour productivity growth – and for its realization in generalized high consumption – which are necessary to ensure it. The 'uniform, constant, and uninterrupted effort of every man to better his condition' is 'the principle from which publick and national, as well as private opulence is originally derived', because from that principle comes the accumulation of capital (*WN*: 343). The 'natural progress … towards wealth and improvement' results from 'capital … accumulated by the private frugality and good conduct of individuals, by their universal, continual, and uninterrupted effort to better their own condition. It is this effort … which has maintained the progress … towards opulence …' (*WN*: 345; also 334, 346, 349).[16] Recalling the causal connection between division of labour and extent of the market (sec. 1), it is not surprising that Smith also comments: 'In opulent countries the market is generally so extensive, that any one trade is sufficient to employ the whole labour and stock of those who occupy it' (*WN*: 134). And just as the scope for productivity gains from division of labour are greater in manufacture than agriculture (again, sec. 1), so also '[t]he most opulent nations … generally excel all their neighbours in agriculture as well as in manufactures; but they are commonly more distinguished by their superiority in the latter than in the former' (*WN*: 16; also 17; *LJA*: 342–3; *LJB*: 490–91; *edWN*: 566).

The requirements for high output and productivity growth, realized in high consumption, which is synonymous with opulence, are not only the direct economic factors. They include also, in particular, secure property rights – security in the broadest sense, from within and without the polity. The commentary at *WN*: 345, quoted immediately above, makes the point; more fully: '[i]t is this effort [towards self-betterment], *protected by law and allowed by liberty*, … which has maintained … progress' (emphasis added). While secure property rights are largely taken for granted in *WN*, the largest part of *LJ* is devoted to analysis of those rights, and the history of those rights in particular. The first of the four purposes of government contemplated under jurisprudence is:

> to maintain justice; to prevent the members of a society from incroaching on one anothers property, or siezing [*sic*] what is not their own. The design here is to give each one the secure and peacable [*sic*] possession of his own property.
>
> (*LJA*: 5)

Second to this priority of 'internall peace', is 'promoting the opulence of the state' – and third and fourth, government revenue-raising and external security (*LJA*: 5–6; also *LJB*: 398; *EPS*: 51; *LRB*: 137–8; Stewart 1811: 322).

Smith regards the history of human economic or material development as susceptible of systematic theoretical interpretation, in terms of the 'progress' of opulence (*WN*, book III). In fact, what is emphasized is the *slow* progress of opulence in human history. Since opulence is one and the same thing as growth of output and of labour productivity, realized in high consumption, the impediments to opulence are as one with the impediments to such growth and its consumption realization. Putting aside the problem of original accumulation (see Aspromourgos 2009: 327–8, n. 69), first and foremost this is about the historic insecurity or inappropriate structure of property rights, which, along with other political factors, undermines accumulation (*LJB*: 522–5, 528). With regard to other political impediments, in *WN* (book III) it is about national policies which have inverted the natural order of material progress, with the economic advancement of cities and towns leading the development process – rather than agricultural development leading, which would be the natural course. Indeed, Smith regards the two systems of political economy he systematically criticizes in *WN*, book IV – understood here especially as policy regimes – as expressions of particular historical experiences of economic development ('[t]he different progress of opulence in different ages and nations' – *WN*: 428). But even if natural and political conditions favour accumulation and division of labour, what is to guarantee that high growth and high or rising output per worker are realized in generalized high or higher consumption?

No policy is offered to ensure that result; it is rather conceived of as the natural outcome of a competitive economy exhibiting rapid accumulation and growth, and hence also exhibiting strong growth of labour demand and therefore liberal wages. Or, one may perhaps better say that commercial society – with the rule of law enforcing property rights, free competition and so on – *is* the policy for bringing about general opulence, though nothing in this formula guarantees high accumulation, other than human nature (the desire for material betterment). To the extent that high accumulation does occur, then in Smith's theory, under competitive conditions greater division of labour and high real wages also will occur. Hence general opulence is a kind of unintended consequence of the propensity to accumulate and producer innovation, arising out of individuals' desire for material self-betterment – an 'invisible-hand'-like mechanism. Hence 'bad police' is policy which impedes free competition, militating against opulence and contributing to its slow development (*LJA*: 362–6; *LJB*: 497–9, 521–30; *edWN*: 575–81). Good economic policy concerns in particular the least detrimental ways of financing essential or otherwise desirable government activities, which are beyond the capability of private production. With regard to the pursuit of general opulence, economic policy is about providing the best framework within which human nature – acting through accumulation, division of labour and competition – can procure generalized high consumption for all.

BY WAY OF his notion of general or universal opulence, Smith makes the purpose of political economy, and the economic purpose of government, the advancing of the material welfare of the labouring classes, because they are the most numerous in society. Hence follows this striking passage in the *WN* chapter on wages, which, though it does not refer explicitly to general or public opulence, connects closely with that normative standard. Smith mentions '[t]he common complaint that luxury extends itself even to the lowest ranks of the people, and that the labouring poor will not now be contented with the same food, cloathing and lodging which satisfied them in former times'; and comments:

> Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage or as an inconveniency to the society? The answer seems at first sight abundantly plain. Servants, labourers and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an 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, 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*: 96)

It is the material welfare of the great majority which is the concern of Smith's political economy; and since the labouring classes make up the bulk of the population, the general opulence at which it aims, requires high or higher consumption for at least the bulk of those. Does this make Smith's politics in some sense 'left-of-centre'? Perhaps it does. But on the other hand, Eltis (2004: 154, and more expansively, 151–7) has strongly made the case that the proffered means to this general prosperity is really a variant of 'trickle-down'. One resists applying such a vulgar conception to Smith, except that, actually, the application seems valid.

For Smith, it is competitive commercial society with strong capital accumulation which delivers the best possible outcome for labourers. His following contention, surely inspired (and surely, consciously) by John Locke's similar suggestion a century earlier, is an evocation of trickle-down:

> the accommodation of an European prince does not always so much exceed that of an industrious and frugal peasant, as the accommodation of the latter exceeds that of many an African king, the absolute master of the lives and liberties of ten thousand naked savages.
>
> (*WN*: 24)[17]

The point is made even more explicitly in *LJA*. Notwithstanding the deductions from the product of the labourer in civilized states, which do not occur in savage states, the labourer is better off:

> mankind are far better provided in all the necessaries and conveniences of life in a civilized than in a savage state; ... plenty and opulence is far greater. The unassisted industry of a savage can not any way procure him those things which are now become necessary to the meanest artist. We may see this ... in comparing the way of life of an ordinary day-labourer in England or Holland to that of a savage prince, who has the lives and liberties of a thousand or 10000 naked savages at his disposall. It appears evident that this man, whom we falsly account to live in a simple and plain manner, is far better supplied than the monarch himself. ... [P]erhaps the affluence and luxury of the richest ['European grandee'] does not so far exceed the plenty and abundance of an industrious farmer as this latter does the unprovided and unnesisted [*sic*] manner of life of the most respected savage. ... The labour and time of the poor is in civilized countries sacrificed to the maintaining the rich in ease and luxury. The landlord is maintained in idleness and luxury by the labour of his tenents, who cultivate the land for him as well as for themselves. The moneyd man is supported by his exactions from the industrious merchant and the needy who are obliged to support him in ease by a return for the use of his money. But every savage has the full enjoyment of the fruits of his own labours; there are there no landlords, no usurers, no tax gatherers. We should expect therefore that the savage should be much better provided than the dependent poor man who labours both for himself and for others. But the case is far otherwise. ... The division of labour amongst different hands can alone account for this.
>
> (*LJA*: 340–41; also 338–9)

A similar passage of argument is in *LJB* (489–90).[18] Yet again, the same line of argument appears in the opening pages of *edWN* (562–4, 566), but with a decidedly more negative moral tone concerning 'so much oppressive inequality':

> In a civilized society the poor provide both for themselves and for the enormous luxury of their superiors. ... [W]ith regard to the produce of the labour of a great society there is never any such thing as a fair and equal division. ... On the contrary those who labour most get least. ... [T]he poor labourer ... bears, as it were, upon his shoulders the whole fabric of human society, seems himself to be pressed down below ground by the weight, and to be buried out of sight in the lowest foundations of the building.
>
> (*edWN*: 563–4)

To be clear, 'trickle-down' does not and cannot merely convey the proposition that the employers as a whole provide the wage-paying employment of the workers as a whole. This is just to describe an evident fact of capitalism, or of Smithian commercial society. Trickle-down must be about workers, in some ascertainable sense, being better off as wage workers in commercial society, than they otherwise would be – and further, that this provides ethical justification for their lower-class position and the associated inequality. To the extent that Smith is subscribing to a position close to this (though I think, with more than a hint of ethical ambivalence), when the texts illustrative of trickle-down acknowledge that (unequal) distribution is expropriation or deduction from the product of the workers, this should be read as a frank admission of what is simply *an evident fact*, rather than as some kind of leftism (*cf.* the apologetic tone at *edWN*: 566). In this regard, Smith comes close to the view that the distribution of material resources is, in significant measure, arbitrary – but nevertheless ethically defensible. The element of arbitrariness pertains not only to *personal* distribution (e.g., whether a person is a worker or a proprietor), but also to *functional* distribution, insofar as the latter is an expression of bargaining power, in Smith's understanding.[19]

4. Opulence and the Theory of Wages

In endorsing high or rising real wages, Smith is not unique in the eighteenth century. But he is the most striking instance, for two reasons. It seems that no one before Smith so clearly and emphatically posited that high or rising labour consumption should be the prime economic aim of State policy (see Aspromourgos 2009: 213–14) – though for him this is entirely compatible with greater inequality in commercial society (see notes 15, 17, 18 above). Secondly, in Smith, this normative principle is accompanied by the most plausible and satisfying descriptive theory in that century, of how the politico-economic system could deliver output growth per capita, and rather more contingently, widely diffused consumption growth per capita. But does universal opulence in Smith means high real wages, or rising real wages, or high *and* rising real wages? Both can be inferred from his treatment of growth and economic development in commercial society. High accumulation and growth in such a society *ceteris paribus* makes for high real wages, via the impact on the balance of bargaining power with regard to the labour contract (e.g., *WN*: 87; and sec. 2 above). Furthermore, if such a commercial society is at the same time competitive and hence innovative, it will exhibit ongoing labour productivity growth from continuous progress in the division of labour (sec. 1 above; and Aspromourgos 2009: 292, n. 19). Combined with the spread of new forms and higher levels of customary consumption by labourers, perhaps partly via emulation, this as well strongly implies *rising* labour consumption, and rising customary subsistence. With regard to diffusion of new and higher consumption, recall the following, quoted more fully in section 3: 'luxury extends itself even to the lowest ranks of the people, and ... the labouring poor will not now be contented with the same food, cloathing and lodging which satisfied them in former times' (*WN*: 96).[20]

How can real wages rising persistently over time be rendered consistent with Smith's theory of wages? The *customary subsistence* real wage can rise over time. (Natural real wages cannot fall below this, except temporarily.) This can occur only if consumption above the (previous) customary subsistence level persists for sufficient time as to enable a new habitual consumption. This in turn requires either that natural real wages exceed subsistence, or that market real wages exceed natural wages and customary subsistence for sufficient time as to enable a new habitual consumption (whether or not natural real wages exceed subsistence). The latter possibility – of market wages persistently exceeding natural wages and customary subsistence, for so long as to change customary consumption – is a form of hysteresis (note 10 above) which compromises Smith's attempt to analogize market/natural wages to market/natural commodity prices, since the natural wage is then no longer independent of the market wage. The former possibility, that natural real wages exceed customary subsistence, is therefore essential for reconciling Smith's theory of wages with his prediction that commercial society will bring about universal opulence. But the possibility that natural real wages can rise over time, over and above customary subsistence (whether or not the latter is rising), is entirely compatible with Smith's theory of real wages as well, as confirmed by the evidence (separate from his accounts of opulence) that real wages are allowed to be above subsistence, in Smith's treatment of tax incidence as well as in book I of *WN*. Technical progress as expressed in the form of the division of labour dynamics, Smith's opulence doctrine, and his theory of real wages, are thus entirely consistent. At least this is so for commercial society, or liberal capitalism, which exhibits positive or strong growth. The possibilities for wages in stationary and contracting economies are another matter: it is not clear in Smith's framework how natural wages could rise above subsistence, or how customary subsistence itself could rise, in such societies. But he never claimed anything different.

Notes

1. We draw heavily on parts of Aspromourgos (2009; esp. secs. 3.4.3, 4.1.1, 5.1.1–5.1.2). The six volumes of the Glasgow Edition of the Works and Correspondence of Adam Smith (Oxford University Press, 1976–1983) are referred to throughout by the usual abbreviations: *TMS*, *WN*, *EPS*, *LRB*, *LJ*, *Corr*, respectively. *LJA* and *LJB* are used to distinguish the two sets of lecture notes on jurisprudence in the fifth volume; *edWN* refers to the 'Early Draft of Part of *The Wealth of Nations*', also in that volume.
2. *WN*: 13–36. Similarly systematic discussions occur in *LJA*: 340–52, 355–6; *LJB*: 489–94; *edWN*: 562–74. There are also two Smith MS fragments on division of labour, published together with *LJ* and *edWN* in Meek, Raphael and Stein (1978a: 582–6), referred to here as '1st Fragment' and '2nd Fragment' respectively. An interpretation of the relation between the latter five documents and *WN* is provided by Campbell and Skinner (1976: 19–24; also Ross 1995: 276–8), and most fully, by Meek and Skinner (1973). Meek, Raphael and Stein (1978b: 561) conjecture that all five date from the 1760s, deferring to the argument of Meek and Skinner (1973).
3. *WN*: 15–21; *LJA*: 342–7, 350–51; *LJB*: 490–92; *edWN*: 565–70. The connection between labour specialization and productivity, generally also with explicit reference to the role of machinery, is further made at *WN*: 82, 104, 181, 260–61, 277, 343, 676, 680–81, 748.
4. But compare this suggestion of unintended consequence, with the motivation of productivity gain offered in the previous chapter (*WN*: 15, quoted immediately above). This is not a contradiction, since *WN*: 25 refers to 'not *originally* ', and to '*general* opulence' (rather than individual gain), but the individuals' intentions are not far from the allegedly unintended social outcome. The concept of opulence is examined in section 3.
5. The *WN* editors (30, n. 14) point out the striking fact that extent of the market does not figure in the *edWN* analysis of division of labour. Combined with a duplication between *edWN*: 574 and the beginning of the 1st Fragment (582), and the fact that the 1st Fragment proceeds to consider extent of the market in relation to division of labour, this suggests the speculation that the two fragments were extensions written subsequent to *edWN* (Meek and Skinner 1973: 1103–06). The key finding from the reconstruction of the development of Smith's views on division of labour by Meek and Skinner (1973: esp. 1102–03) is that the significance of extent of the market appears to have emerged in his mind during 1763.
6. Allyn Young (1928: esp. 532–3, 535, 536–7) puts a case for just such a mutual causation, though in doing so, he has recourse to a tendency of the economy towards full utilization of resources along marginalist theoretical lines (see esp. pp. 540–42). Later, Young's idea of mutual and cumulative causation was taken up in a Keynesian framework, wherein a leading role for demand sits more comfortably than it does in the marginalist framework, notably by Nicholas Kaldor (e.g., 1972). Richardson's (1975) analysis also is very much in the spirit of Young.
7. See *WN*: 14, 20–21; *LJA*: 346, 351; *LJB*: 492, 526; *edWN*: 569–70. (See also *WN*: 282: 'The improved dexterity of a workman may be considered in the same light as a machine or instrument of trade which facilitates and abridges labour'.) Notice here at least a tension between the supposed role of workers in innovation, and the comment at *WN*: 782, that the stupefied worker 'has no occasion ... to exercise his invention'. Any apparent contradiction perhaps can be resolved by supposing that the scope for worker inventiveness declines as the division of labour develops: at *WN*: 783 Smith contrasts the situation in 'barbarous societies', where 'every man' is able 'to invent expedients for removing difficulties' (*cf.* Rosenberg 1965). On the other hand, the examples Smith gives of worker inventiveness are wide-ranging, even down to a 'miserable slave' (*edWN*: 569), though also largely concerning the distant past – and in the case of agriculture, division of labour is not so extensive (*cf.* *WN*: 782, ed. note 47). (Contrariwise on slaves, at *WN*: 684 the reader is told: 'Slaves ... are very seldom inventive; and all the most important improvements, either in machinery, or in the arrangement and distribution of work which facilitate and abridge labour, have been the discoveries of freemen'. *Cf.* Rosenberg 1965: 130–31) The *WN* editors (p. 21, n. 20) draw attention to Smith's arguments elsewhere, that technical progress over time involves also simplification of machines (*EPS*: 66; *LRB*: 13, 223–4).

8. See also the opening paragraph of this section (including n. 3) and the discussion in the immediately previous paragraph (including n. 7). In Smith's conceptual framework, division of labour is also associated with accumulation of capital in the sense of wage advances (*WN*: 276–7; *LJB*: 521–2, 527). But the *WN*: 343 quotation makes clear that the need for capital advances is also ascribed to use of machinery and the introduction of new machines. Notice, further, how the title of book II, chapter I of *WN* ('Of the Division of Stock') mirrors the title of book I, chapter I ('Of the Division of Labour'; *cf.* the parallel between specialization of stock and of labour at *WN*: 530).
9. This does not require that direct labour inputs per unit of outputs be falling in all industries or processes: fall in some with rises in none is sufficient for net product per worker to be rising for any and every commodity or composite commodity – at least so long as those commodities for which labour input requirements are falling include 'basic' commodities in the sense of Sraffa (1960: 8). For Smith's political economy, basics will include commodities consumed by labour.
10. *Cf.* Stirati (1994: 57, 83–4). Smith does clearly enunciate the idea of a minimum customary real wage (*WN*: 85, 89–91, 113). Stirati (1994: 66–8, 83–4) also draws attention to the fact that the dependence of the real wage on bargaining makes it possible that customary subsistence itself may be altered by real wage changes of sufficient persistence, a phenomenon explicitly considered by James Steuart (1767 [1966]: 192–4, 246–52; see also Garegnani 1984: 320, n. 49). Indeed, for the customary subsistence real wage to change over time, in logic there must be deviations of wage-rates from (previous) subsistence, of sufficient persistence as to enable a different real wage to become habitual – a kind of hysteresis of the real wage.
11. Smith says 'somewhat higher', as he goes on to explain, because he is speaking in proportional terms. For *given* money prices of subsistence goods, introduction of a twenty per cent income tax on wages requires a twenty-five per cent increase in wages, in order to preserve their purchasing power; a twenty-five per cent tax requires a thirty-three per cent wage increase; and so on.
12. Note also that Smith is quite emphatic that wage relativities are independent of variations in the overall level of real wages, the latter due to the strength of labour demand growth (*WN*: 80, 158–9).
13. The higher commodity prices would then feed back upon money wages, to the extent that those higher-priced commodities include the workers' subsistence goods. This might appear to point to an endless spiral of prices adjusting to wages and vice versa, but a determinate solution for prices and distribution can be derived, so long as one can posit a coherent set of equations linking money wages, profits and normal prices. But this is not possible in the framework of Smith's theory, due to the problematic character of his theory of profit rates (and rents).
14. Smith twice defines necessaries in the space of a single page: 'not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without'; 'not only those things which nature, but those things which the established rules of decency have rendered necessary to the lowest rank of people' (*WN*: 869–70). He adds after the latter: 'All other things, I call luxuries' (evidently here ignoring capital goods other than those consumed by labourers).
15. Note, however, two qualifications which immediately follow. First, as labour productivity rises, 'it produces … a much greater quantity of work than in proportion to the superiority of its reward': real wages rise less than proportionally to the rise in output per worker. Second, Smith observes that therefore rich countries generally will not lose markets to poor countries, unless due to the former pursuing inappropriate policy, one effect of which could be to increase 'the price of labour to an unnatural height, far beyond what the opulence of the society could of its own accord have raised it to' (similarly, at *LJA*: 343–4). Opulence is identified with 'plenty' also at *LJA*: 6, 340, 356; opulence, plenty and 'abundance' are coupled together and identified with 'cheapness of goods of all sorts' at *LJA*: 333 (also 343; *LJB*: 487, 491, 503–04); and opulence is identified with high real wages in particular (*LJA*: 350).

16. Recall also that division of labour itself presupposes accumulation of stock. The role of accumulation or saving in relation to opulence is also explicit in *LJA*: 393–4; *LJB*: 513–14; *edWN*: 578.
17. Locke (1698: 338–9) also connects the contrast in consumption to differential labour productivity. Smith owned the 1728 fifth edition of Locke's book (Mizuta 2000: 151). Notice also that Smith's comparisons of the consumption or income of a European prince, a European labourer, and a chief of a 'savage' nation, are entirely consistent with the proportion between a European prince's real income and that of the European peasant exceeding the proportion between an African king's income and that of one of his 'savages'. That is to say, it is entirely consistent with greater inequality of income distribution in commercial society. On this see especially the articulation of the trickle-down idea at the very beginning of *WN* (10), in the 'Introduction and Plan of the Work'. Larrère (2001: 1073) connects the Locke formulation also with Mandeville's (1733) 'contrast between the poor and egalitarian beehive and the corrupt and prosperous one'.
18. The argument at *LJB*: 453–4 (paralleled at *LJA*: 194–6), concerning the rich man who feeds 1,000 via his luxury consumption but 'eats or wears no more than the rest', also has close kinship with the intent behind trickle-down. The conclusion drawn at *LJA*: 195 is notable: 'a people who are all on an equality will necessarily be very poor'. A similar but more famous passage of argument than these appears in *TMS* (184–5) – more famous, because involving the one instance of the invisible hand metaphor in that work. There is a subtle difference between the *LJA*: 195 contention, and the drift of the parallel *LJA*, *LJB*, *TMS* arguments (cited here) concerning the capacity of the stomachs of the rich being no greater than that of the poor. The former justifies inequality; the latter propose that beneath the appearance of inequality there is in fact a substantial equality. At *LJA*: 196–8 Smith argues that something akin to trickle-down was obstructed in ancient societies, due to the institution of slavery (also slightly mentioned at *LJB*: 453–4).
19. Meek and Skinner (1973: 1108n) comment on the omission from *WN* of the rather stronger adverse views on inequality Smith expresses in the other manuscripts quoted and cited here.
20. Further to this, see section 3 more generally. *WN*: 22, quoted there, speaks of how plenty 'diffuses' through all the social ranks. Consider also the commentary on 'that emulation which runs through all the different ranks of men' at *TMS*: 50, explicitly connected with 'bettering our condition'. In the context of defining 'necessaries' in *WN* (870), Smith illustrates changing customary necessary consumption: 'The Greeks and Romans lived ... very comfortably, though they had no linen. But in the present times ... a creditable day-labourer would be ashamed to appear in publick without a linen shirt ... .'

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