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An Inquiry into the Division of Labor

by

Raul Reyes

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# An Inquiry into the Division of Labor

Raul Reyes

**Abstract:** This inquiry seeks to establish that Adam Smith relies upon his books *The Theory of Moral Sentiments* [1759] and *An Inquiry Into the Nature and Causes of the Wealth of Nations* [1776] as complementary texts to introduce and develop his ideas. We will begin with a background of economic thinkers prior to Smith. After summarizing an example of this division of labor by Adam Smith, we will delve into the benefits of the division of labor: more skilled workers, time efficiency, and the invention of proper machinery. Similarly, we will examine the implications brought by this division of labor with an analysis of the connection between both of his books. Current scholars will be briefly discussed as they interpret the meaning of Smith's work. Finally, we will look at post-Smithian thinkers in Classical Political Economy. (Words: 135)

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This inquiry seeks to establish that Adam Smith relies upon his books *The Theory of Moral Sentiments* [1759] and *An Inquiry Into the Nature and Causes of the Wealth of Nations* [1776] as complementary texts to introduce and develop his ideas. In his book *Teachings from the Worldly Philosophy* (1996), Robert Heilbroner spends a chapter introducing and analyzing Adam Smith's contributions to economics. An important concept developed in Adam Smith's book titled, *An Inquiry Into the Nature and Causes of the Wealth of Nations* [1776], is the concept of the "Division of Labor." First, the concept of the division of labor will be defined with an example written by Smith. Then, we will look at the consequences brought by the Division of Labor: an increase in the skills of workers, a more efficient labor force, and the invention of machinery. Also, Smith's second chapter will be examined and interpreted. Through the first two chapters of Smith's book, he is able to explain the Division of Labor and its significances. However, before considering Smith and his ideas, it is important to provide a background on some important figures that contributed to Classical Political Economy before Adam Smith to gain knowledge on what scholars had developed prior to Smith.

### **Background**

Before Adam Smith, there were many philosophers who laid a foundation from which Smith would later build on. Some of these "Pre-Adamites" include Bernard Mandeville (1670-1733), Thomas Mun (1571-1641), Richard Cantillon (1680-1734), and Francois Quesnay (1694-1774). Each theorist introduce new during the Commercial Revolution. In his book, *Teachings from the Worldly Philosophy* (1996), Robert

Heilbroner introduces Bernard Mandeville, Thomas Mun, and Richard Cantillon. The following piece of writing will discuss each thinker's ideas and contributions to Economics. First, Bernard Mandeville writes "The Grumbling Hive" is a manifestation on the materialistic and dishonest nature of people. He writes that it is thanks this nature we are able to advance in trade. In short, the pursuit of luxury led to society to seek ways of obtaining other goods. His poem was a contradiction and as Helibroner (1996, p. 20) writes, also a fraud.

Mandeville's poem touched on some important issues that contributed to the discipline later on. For example, Mandeville introduced the idea of free trade and the division of labor. In his text that Heilbroner (1996, p20) shares, "Millions endeavoring to supply each other's lust and vanity;" (20) meaning that where there is a demand, there will be supply for a given commodity. This bring us to the idea that trade must occur in order for people to enjoy all goods available for trades. Otherwise, people would not be able to le luxurious and lavish with their spending.

In a similar note, with trade and the idea of a free market economy, more people are employed and an economy is able to flourish. He also notes that, "All Trades and Places knew some Cheat" and of course, in order for traders to be successful, they had to find ways to obtain the most out of their trade. This is where Mandeville also wrote that if there was honesty in trade, trade would diminish. In his conclusion, he writes that as long as there are benefits such as free trade, and prosperity in a society, the "hive" has to continue with its deceitful and luxurious ways. The contributions provided by this thinker are a foundation for later

scholarship, as they are important to the development of Classical Political Economy. Another “Pre-Adamite” important to our discussion is Thomas Mun.

Thomas Mun, much like Mandeville provided radical views on free trade and the economic society. Mun was considered a mercantilist with an interest in increasing England’s foreign trade, hence his paper, “England’s Treasure by Forraign Trade.” His book argues that a way to increase England’s treasure is by exporting more goods than the goods that are imported. Much like Mandeville, Thomas Mun agreed that free trade was essential for growth. Mun also claimed that by following mercantilist ideals, England would gain more by trading than they would lose. David Ricardo noted his influence three centuries later. More specifically, Mun influenced Ricardo with the idea of comparative advantage and the benefit that is gained by both nations (in a two-country and two-commodity model) when trade occurs. Thomas Mun lived before Mandeville, as to why Heilbroner chose to include Mandeville before Mun I think it is because Mandeville had an influence on Smith and Mun had an influence on Ricardo. Both Mun and Mandeville served as writers who laid a foundation during the Commercial Revolution. Another Commercial Revolution Economist is Richard Cantillon.

Cantillon lived during the same time period as Mandeville. However, as Heilbroner (1996, p. 29) mentions, little is known about Cantillon during his lifetime besides the fact that he was a British merchant. He was neither a Physiocrat nor a mercantilist. The important thing about him is his writings on economics. He wrote an essay titled, “Essay on the Nature of Commerce in General” provided in

Heilbroner's (1996, p. 30) book for reference. In his essay, he discusses the workings of a system of self-adjustment and logical relationship between money supply and society's prosperity.

The main point of his essay is to say that if the State doubles the money quantity, the prices of commodities do not always double. To put it another way, money supply does not necessarily directly affect the price of goods and services. Cantillon argued that the money supply would be directed to commodities depending on who acquired the money. Also, Cantillon claimed that sometimes prices would increase or decrease no matter how plentiful money would be. Cantillon was a great thinker of his time and according to Heilbroner and William Stanley Jevons, Cantillon's works of writing are essential for an economist, or any intellectual, to read and acquaint with.

Cantillon's influence carried on to the Physiocrat thinkers a few decades after his death. Anne Robert Jacques Turgot, François Quesnay, and even Adam Smith were influenced by Cantillon's writings. As it is the case in many disciplines, a concept takes many years and even centuries to develop. This is definitely the case in Economics and the Classical Political Economy school of thought's ideas and concepts.

As mentioned earlier, Bernard Mandeville, Thomas Mun, and Richard Cantillon were influential in their early explorations of Economics. Their contributions were subject of study for the greats such as Adam Smith. Before I conclude this part, I think it is important to note that during the Commercial Revolution thinkers had many questions about trade and accumulation of wealth. In the search of these answers, thinkers not

only answered some questions (and left some that even today, are yet to be answered), but they led the way in the field of economics before it was even thought of as a subject of inquiry.

François Quesnay's *Tableau Economique* (The Economic Table) [1758] offers a diagram in an attempt to explain the economy of France during the 1760s. The characteristics of this diagram are not easy to comprehend at first glance, as Robert Heilbroner (1996, p. 37) notes. That is, without the notes provided by Quesnay. The *Tableau* is broken down into three categories (or classes), Productive class, Proprietors, and Sterile class. As noted by Heilbroner (1996, p. 38), both the Productive class and the Sterile class are not social classes, he also notes that we should refer to them as “sectors” instead. Quesnay also broke down the population of the three sectors. Productives made up half of the population, the Proprietors were one fourth, and the Steriles made up the last fourth. These are the characteristics of the *Tableau Economique* and there is much more to the table besides a confusing zigzag, which we will discuss shortly. First, we must define each of the economic classes.

Quesnay (and those who followed him) had a definition for each sector in his table. The productive class was comprised of those who worked in agriculture. This was because agricultural work yields, as Heilbroner notes, “a tangible surplus of wealth over the labor that was expended on it” (1996, p. 36). In other words, with agricultural labor, if one plants one pound of corn, we will harvest more than we planted; there will be more output compared to the initial input. The Sterile sector



was defined as industrial work because although its products were useful, there did not seem to be a concrete increase in wealth when compared to productive labor. In the sterile sector, there is no obvious indication of surplus as there is with the productive class. Lastly, we have the Proprietor sector consisting of very large number of servants and a significantly smaller number of “seigneurs”. Proprietors were also unproductive because they only lent the land to the productive sector and received payment for it. Now that we have defined these sectors, we can go into a brief overview of the table itself.

The diagram has one important assumption known as the “gift of nature.” As Heilbroner (1996, p. 38) writes, there is an assumption that wealth from working in the soil will be twice as much as the work. In other words, if a day’s work is worth \$100, then the harvest will be worth \$200 for that day. The table basically breaks down the distribution of money along the three classes and how, through redistribution, each sector breaks even to maintain their activities. According to Quesnay, the source of value came from the land. This was also the source of surplus. This diagram of Quesnay holds together by assuming all sectors use the right “ratio of expenditure.” In other words, if proprietors must spend half or more than half of their income in order for the productive sector to produce at the same level. If proprietors spend more than half their income on agriculture, then, according to Quesnay, the rate will enlarge the overall output of society and vice versa. It was because of this table and Quesnay’s inquiry that he, along with other thinkers of his time, became advocates of a system known as *Laissez-faire*.

As opposed to Colbertism, where peasants were given work obligations and no compensation for their work, *Laissez-faire* had an idea of “leaving it alone” or “leave it be.” Under Corvée labor had a long history in France since Jean-Baptiste Colbert introduced the ideas in the seventeenth century. Colbert’s idea was to advocate for mercantilism and for the accumulation of treasure. This idea for which both Quesnay and Anne Robert Jacques Turgot were advocating at the time was a radical, or at least new idea in their time. Some key ideas will be discussed in this section.

Physiocrats, a group founded by Quesnay, promoted *laissez-faire*. The ideology of physiocrats was that the earth was the source of surplus. For this reason, Quesnay and Turgot, along with their followers, were advocates of the *laissez-faire* way of thinking. The term *laissez-faire* means to “leave it be” and what physiocrats advocated was to leave the market alone and let prices and wages be decided by the market. They claimed that the government should only interfere in the case of human safety, protection of property, or protection of liberty. Otherwise, the government should not intervene or impose tariffs on imported goods. This, as mentioned earlier, was a radical and new approach to the way France had been working before.

To understand *laissez-faire* easily, one can think of it as a completely free-market economy where everything would be decided by the market. King Louis XV heard this idea and the French government implemented *laissez-faire*. This was made possible because Quesnay served as an adviser to the king. The concept of *laissez-faire* was successful until in 1768, a bad year for harvest rose prices of agricultural

goods too high and many people were said to starve. Overall, the idea of *laissez-faire* had very good fundamentals and good potential for growth and positive improvement. In my opinion, *laissez-faire* was not given enough time to flourish and become successful. Although a completely free-trade market is not ideal, Quesnay and his physiocrat followers should have advocated for a more regulated market in order to maintain order. I would even go a bit further and call this new model regulated “*laissez-faire*.” Either way, the intention behind their ideas was to move away from a Corvée system. Something that I think was beneficial to the French. Once this foundation was established, Smith was able to continue this inquiry and establish his own ideas.

Before we delve into the Smith’s *Wealth of Nations*, let us briefly consider his earlier book, *The Theory of Moral Sentiments* [1959] where Smith outlines his ideas on human behavior and, as Heilbroner [1953, p. 47] writes, it also a study into both moral approval and disapprobation. In other words, Smith laid the foundation of his ideology in *The Theory of Moral Sentiments* before his more famous book was published. This book focuses on sympathy in its first chapter, ambition in the second chapter, and corruption in the third chapter. There is no doubt that Adam Smith is regarded as the a key figure in Classical Political Economy. Heilbroner [1953, 56] states that Smith conducts his analysis in the order known as “preindustrial capitalism. This era occurred during the late 18<sup>th</sup> century; also the time during which Smith lived. Prior to being known as “capitalism,” Smith referred to it as a Society of Perfect Liberty. This definition to the early stages of capitalism suggest that Smith was interested in having citizens follow their free will and through this liberty, the

society as a whole will benefit <sup>1</sup>. Also, in this society, private wealth played a major role, as individuals would seek to increase their wealth. It is important to explore *The Theory of Moral Sentiment* first for two reasons: first, it precedes *The Wealth of Nations* in publication and second, as Heilbroner [1996, p. 57] explains, it focuses on human behavior. This human behavior played an important role in Smith's society of free individuals as they seek to make money. As individuals pursue money and the accumulation of wealth, how do these persons stay "moral" without having their desires take over their judgment? Smith uses chapter one of *The Theory of Moral Sentiments* to explain that.

Chapter One is titled "Of Sympathy" where Smith outlines how humans use sympathy mainly because humans have a tendency to care for others because of the pleasure we have from seeing others happy. This is what he calls sympathy. Smith [1959] writes that pity and compassion indicate our feelings as response to the feelings of others. In other words, a smiling face is likely to make you smile or in the very least make you feel happier. On the other hand, a sorrowful face will not be a pleasant one to see. We as human beings are more likely to enjoy being around pleasant people as opposed to unpleasant people. This sympathy is also our ability to feel for other's emotions. For example, if we see a person running to catch the bus in the pouring rain and not catching it, we are sure able to feel sympathy for the person. Smith argues that we feel sympathy even for the most thuggish individual in society. Sympathy, as suggested by the previous example, has its extent. Smith claims that there are levels of sympathy depending on the degree at which we experience other people's misfortunes. In short, the more we know, the level of sympathy is likely to

be higher. Finally, Smith describes that we judge one another based on what we can see, hear, and reason. This, Smith states, is the only way he is able to judge someone. Smith is not looking to find where sympathy comes from, as Heilbroner states, but rather, Smith is referring to our ability to understand other's emotions. This is what Heilbroner claims is what led Smith to be able to justify amassing wealth, something that was not well regarded by previous writers<sup>2</sup>. Even though his amassing of wealth was justified through sympathy, Heilbroner claims that Smith struggled to deal with this subject throughout his life. The next chapter discusses his origin of ambition. As opposed the previous chapter where Smith was not concerned with the origin of sympathy, in this next chapter Smith discusses the origin of ambition.

The second chapter starts out with Smith explaining that mankind is more likely to sympathize with our happiness rather than our grief. For this reason, as Smith writes, we are more likely to display our riches and hide our poverty. Essentially, we want the world to see the best of us and would prefer to not be seen in an unpleasant manner. This is why we prefer to be rich to being poor. Smith gives the example of a laborer who is able to supply himself with all his necessities. At the same time the laborer can even spend money on things for his pleasure. This brings us to the subject of ambition. A rich man is proud to be rich and through his fortunes, he seeks attention from the world. As earlier discussed, we are proud of what makes us happy. On the other hand, a poor man is ashamed of his poverty. He seeks no attention from the world and if he does get some attention, the world might feel sorrow for him and his miseries. From this distinction, we can draw the pleasures of vanity. As one man seeks not attention and seems of no interest to others, a man of distinction has all

the world's attention. Again, as we discussed earlier, people tend to want to be around joyful people. Smith argues that because of this human nature of seeking those who are better off, we can see the origin of the distinction of ranks and the order of society.

The root of ambition then comes when the admiration for the rich are greater than that for a simple and poor man. According to Smith, we associate with powerful people not to benefit from their fortunes but for the honor of assist them. Because we idolize the rich so much, sometimes even when we know that we should go against their desires, we seldom do. The result from the admiration of the rich will lead us to something that will be discussed next.

In his third chapter titled, *Of the corruption of our moral sentiments, which is occasioned by this disposition to admire the rich and the great, and to despise or neglect persons of poor and mean condition*, Smith claims that, as the title suggests, there exists a corruption of our moral sentiments due to the admiration or even worship of the rich and the neglect of the poor serve to establish and maintain the distinction of ranks and the order of society. As wealth is admired, poverty is looked down upon. All people desire to be respected. But as Smith mentions, wisdom is not the only requirement for respect and stupidity is not the sole source of dislike. The main source of this admiration comes from wealth. We all seek to be admired and valued by our society. Smith presents two roads to be taken in order to attain this admiration, first, through the study of wisdom and the practice of greatness; second, by gaining wealth and greatness. These two roads provide two different ways to

achieve the same goal. One is more honorable than the other. Smith recognizes that the main motive for the Society of Perfect Liberty is also one that which leads to corruption. He also accepts this to be the case and moves on. He does not make a big deal out of it. His reasoning may be due to the fact that there might not be a perfect social order. He is also an intelligent person who might see this as a necessity component of this society. However, Heilbroner [1996] considers our conscience to play a vital role in our judgment. This is described in a more detailed manner in Part II, Chapter III of the same book.

In this chapter, Smith gives the example of a man who finds out all of China has been wiped out from the earth. This man will feel sorrow for the country of China and will most likely sleep well that night. However, there exists a love stronger than any other love that is honorable and noble and on occasions such as these, that we disregard our self-interest and worry about the well-being of others. This basic foundation of Smith's earlier work serves as a good foundation to understanding the content of his later book. In his book, *An Inquiry into the Nature and Causes of the Wealth of Nations* [1776], Smith studies what makes nations rich and powerful. *The Wealth of Nations* explores the Division of labor and Smith also talks about value. Both topics are important in Smith's work as they both play a big part of this book. As mentioned earlier, Smith uses the Labor Theory of Value that had been explored by all the Pre-Adamite philosophers. This Theory of Value continued to be developed even after Smith's contributions. However, we will look at the Division of Labor as introduced by Smith in *The Wealth of Nations*.

## Division of Labor

The “Division of Labor” is a term coined by Adam Smith when he referred to the shift from one person making a good from start to finish to a group of workers dividing their work in parts to create a good. This change was crucial in Smith’s analysis of economics because it displays a start of a new area of study regarding value.

According to Smith, a commodity is worth the amount of labor that has been put into that commodity. Although a great deal of scholarship has been written about value, this inquiry will focus on the transformation of production from one worker to many. This inquiry will be based on the observations made by Adam Smith. Smith noticed this change and studied a factory where pins were made.

In his famous example of the production of pins, Smith explains how a workman without any training or equipment, could make one pin a day. On the other hand, a group of men working in a factory divide their work into different stages. This way, as Smith mentions, they are able to produce forty-eight thousand pins per day. Heilbroner (1996, p. 76) includes part of Smith’s book *An Inquiry into the Nature and Causes of the Wealth of Nations* [1776] where Smith narrates in detail the case where these workers were making thousands of pins per day. During his observation and analysis, Smith found the division of labor to be an important part of the increase in productivity. In his journal article titled “Adam Smith, Allyn Young, and the Division of Labor,” Ramesh Chandra (2004, p. 787) points out that in the specialization of each man, the output is dramatically increased. This means there must be some advantages in breaking down the production of a good. Chandra (2004, p. 787) lists



the advantages as an increase in the level of skill and dexterity, the time saved from changing from one type of work to the other, and the invention of machines to facilitate and reduce labor. These advantages will be discussed in detail in the next chapter.

As the first consequence coming out of the division of labor, there is an increase in the skills and dexterity of each worker. In other words, as a worker focuses on only a few steps in the production of a good, the worker will become really good at performing those small tasks. In the example given by Smith, he mentions that one worker is responsible for making sure the iron is ready for forging, another the medal, the next straightens it, another cuts it and so on until the nail becomes a finished product. This breakdown in production allows workers to only focus on a small part of the fabrication of a commodity. As a result, each worker becomes highly skilled in the small part of production that he or she is involved in. Basically, Smith argued that this was a benefit in dividing up the work in smaller tasks. By observation, we can perceive that Smith was correct. Indeed if a production firm breaks down the duties of each worker, each worker will become more skilled in the task assigned to them. However, Smith also said this was only one of three benefits from the division of labor.

The second advantage outlined by Smith in the division of labor is the time saved by workers in the lack for them to switch from one operation to another. This is a very simple concept; when making nails, a worker saves time by doing one or a small number of operations because that worker does not have to do all the

operations required for making a commodity. For example, in order to produce a nail, a worker would go into the tasks of preparing the metal, to cutting the wire, to pointing it, to making the head and making a single nail. This process required time in going from one process to the other. When Smith analyzed the concept of the division of labor, he mentioned the time saved by placing all tasks in one place, the time of production would be decreased. Essentially, Smith was in a way, advocating for factories. This introduces us to our last advantage of the division of labor: the invention of machinery.

The final benefit from the division of labor comes from the creativity and ingenuity observed by Smith. Through the division of labor not only did workers become more skilled and save time, they also came up with machinery to assist them in their work. Smith used an example in which a boy was hired to oversee the operation of a boiler and a cylinder by opening and closing their communication. This boy was able to figure out a way to automate his work so he could enjoy playing with his friends. In other words, Smith argued that when a worker becomes familiar with his work, he is able to figure out a better way to perform that operation. After all, he has become an expert in the operation of that specific task. Through all these gains of production, Workers became much more productive. The workers' ability to produce much more goods meant they were producing a massive number of goods and commodities. The question then becomes: how does this affect society?

The second chapter in *The Wealth of Nations* looks at the implications in society created by the division of labor. Heilbroner (1996, p.82) sees chapter two as a

shift from pure economic analysis to a psychological examination of the effects of the division of labor. Smith mentions the one characteristic that makes us different than any other animal is our ability to engage in trade. Smith mentions that no one has ever seen a dog making a fair trade with another good. He argued humans' involvement in trade is what made us special. The next focus for discussion should then be the question of why we engage in trade.

This question is clearly outlined in Smith's second chapter. He argues that we get involved in trade because it leads to a benefit for all parties involved. When a shoemaker trades a pair of shoes in exchange for meat from the butcher, there is a gain obtained for both parties. Also, this trade was a conscious and intelligent agreement by the shoemaker and the butcher. In a separate case, Smith argued that other animals did not get involved in trade in this manner. Animals, like in Smith's example of two dogs hunting a rabbit, may engage in cooperative hunting only out of coincidence share in interest. If they kill their prey, they will not equally and civilly split their meal. This is what made us humans different from other animals.

Looking at the division of labor along with the ability for people to trade is how we can see the benefits for society. Given the increase in efficiency in the production of goods creates surplus, that surplus can be taken into the market for trade, where others can benefit from the increase in productivity. Smith mentions that a person depended on different people in order to maintain such standard of living. Essentially, trading would increase and the standard of living would also increase in each person. Each trade that occurs benefits all parties involved. In other words,

people acted on their own “self-interest” rather than the interest of society as a whole. This passage in Smith’s book is commonly misinterpreted to encourage humans to be selfish. This is not the case, especially given Smith’s earlier book, *The Theory of Moral Sentiments* [1759].

Author Robert A. Black addresses this issue regarding “self-interest” and “self-love.” In his journal article titled, “What Did Adam Smith Say About Self-Love?” Black (2006, p. 8) argues Smith did not refer to selfishness when he used the term “self-interest.” In his article, Black seeks to convince the reader that Smith referred to one’s self-love instead of one’s “self-interest” when trade occurs. Black also finds *The Theory of Moral Sentiments* to provide much background into Smith’s view of society when Smith wrote his later book. The bottom line of chapter two of *An Inquiry into the Nature and Causes of the Wealth of Nations* lies in two things: the division of labor creates surplus that lead to trade and trade occurs for the benefit of all parties involved.

The third chapter of Smith’s *Wealth of Nations* discusses the extent of the market. Smith introduces this idea with the example of a town in Scotland. If this town is small, every farmer must take care of their own needs. For example, each farmer must be the “butcher, baker, and brewer” in his own household. As the town increases in size, so do the opportunities for each person to only dedicate themselves to one field of work. Similarly, in small towns, there may be a carpenter and a carpenter. This carpenter in this scenario does everything that has to do with wood. For example, he may make cabinets, tables, chairs, wagons, etc. Similarly, the smith

will work with any type of metal. This is due to the small size of the market. As it might be expected, the larger the market, the smaller the tasks in which the division of labor can be divided. In other words, in a big market, there is possibility to have a more finely divided labor. This chapter basically describes how the market size is directly correlated with the division of labor. I will abstain from providing any more examples, as they might only be redundant. Essentially, the division of labor increased the standard of living of people and therefore everyone is better off. Although Smith's work was extensive and thorough, there have been many scholars who have contributed their inquiry to the topic of the division of labor.

As an elaboration to Smith's inquiry, it is important to consider the scholarship by scholars after Smith on this matter. Author Nathan Rosenberg wrote an article titled, "Another Advantage of the Division of Labor" where he describes another advantage from Smith's writings<sup>3</sup> that until recently were not in the public domain. In this article, Rosenberg points out that these lectures elaborate on Smith's *Wealth of Nations* even though they were not part of his book. In his lecture from February 7, 1763<sup>4</sup>, Smith lectured on the judicial structure. Smith argued that legal arguments took two forms: "abstract reasoning" where something "follows from some stature" or by showing "how it has been supported as law by former practice and similar adjudged causes or precedents" (1971, p. 168). To put it another way, there is either some way to show a logically that there has been some breaking of the law or that the law was being followed all along. Smith argues that the use of the second form was not used by Greek nor Roman lawyers; something that is widely used today. For example, today, the main job of a defense lawyer is to find a way in which to make

their client comply with the current law and to defend the client. For this reason, Smith suggests that a more extensive division of labor is necessary. Rosenberg (1976, p. 862) writes that in earlier periods, one person took on many roles in government. This obstructed the distinction between different branches like military, legislative, and judicial. This resulted in,

The same persons therefore who judged them in peace, led them also in battle. In this two-fold capacity of judge and general, the first kings and consuls of Rome, and other magistrates, would reckon the judicial part of their office a burthen, rather than that by which they were to obtain honour and glory; that was only to be got by military exploits. They therefore were bold in passing sentence. They would pay very little regard to the conduct of their predecessors, as this was the least important part of the office. This part was therefore for their ease separated from the other and given to another sort of magistrates. These, as the Judicial was their only office, would be at much greater pains to gain honour and reputation by it. [Smith 1971, p. 168; cf. Smith 1937, pp. 680-81]

This passage argues in favor of more extensive division of labor because it is better to divide two important roles to more than one individual rather than having them combined into one person. This reasoning follows with *The Wealth of Nations* in that if someone's success is based on one of two activities, he will have not motivation to excel in the second job. Rosenberg (1976, p. 863) writes that a man who is both general and judge cannot spend much effort in one or the other job as he

will have a favorite and will devote more time to the position he enjoys. This will then lead to one job being completely ignored. Therefore, if there is no gain achieved from the performance of the second job and there will be no incentive to do it. For this reason, it makes sense to divide the labor into different functions.

This more extensive division of labor then leads to a more efficient work force and according to Smith; it also leads to a positive social change. He writes that a full-time judiciary

...would be at pains to strengthen their conduct by the authority of their predecessors. When, therefore, there were a few judges appointed, these would be at great pains to vindicate and support their conduct by all means. Whatever, therefore, had been practiced by other judges would obtain authority with them, and be received in time as law. This is the case in England. The sentences of former cases are greatly regarded, and from what is called the Common Law, which is found to be much more equitable than that which is founded on practice and experience must be better adapted to particular cases than that which is derived from theory only.

[Smith 1971, pp. 168-169]

And as the division of labor leads to the establishment of an independent judiciary, other active forces are set into motion. As mentioned in *The Wealth of Nations*, there exists the pursuit for private self-interest on the part of the judges. Through this process the judicial system becomes more responsive to individual needs. Smith also suggests the privatization of the judicial system and that they are

encouraged to bring in as much business as possible. For this reason they are able to consider cases that might not have been considered in the past. Also, each court might expand their jurisdiction to be able to provide their service to more people. However, this expansion of jurisdiction does not lead to more specialization, as would be suggested by Smith. However, it does provide a special service that according to Rosenberg cannot be left to the market to decide. It may also lead to corruption as individuals may be able to “purchase” justice and if the judge uses his service as a form of revenue rather than a public service<sup>5</sup>. For the operation of free markets might make it possible for wealthy individuals to get away with cheating the system through what should be just judges. As this is a very delicate manner, Smith calls attention to another aspect in which to administer justice. He emphasizes the importance of placing the judicial duties to be placed in large social units. An individual is more likely to perform their job well if they are under the public eye. Rosenberg (865) also suggests that it is society’s job to maintain a close link between effort and reward of an individual. Therefore, this is achieved by keeping the actions of individuals in the public eye:

These judges, when few in number, will be much more anxious to proceed according to equity than where is a great number. The blame then is not so easily laid upon any particular person; they are in very little fear of censure; and are out of danger of suffering much by wrong proceedings. Besides that a great number of judges naturally confirm each other, prejudice and inflame each other’s passions. We see accordingly that the sentences of the judges in England are greatly more equitable than those of



the Parliament of Paris of other Courts which are severed from censure by their number. The House of commons, when they acted in a Judicial capacity, have not always proceeded with the greatest wisdom, although their proceedings are kept upon record as well as those of the other Courts, and without doubt in imitation of them. [Smith 1971, p. 169]<sup>6</sup>

This leads us to have two different advantages from an increased division of labor in this case. First, dividing responsibilities among different people in a way that no individual has both military and judiciary obligations, both duties will be performed better. One person is only responsible for one job so they are more likely to perform well at that one job. Rosenberg (1976, p. 866) also emphasizes the importance of having social functions to remain small. Rosenberg states that in smaller groups, it is easier to establish individual responsibility. It is important to recognize that the advantages of the division of labor are also outlined in this lecture presented by Smith. Rosenberg illustrates a good example of when the division of labor proves to be not only functional but it also improves the productivity of the trade. This is in alignment with what Smith wrote about in *The Wealth of Nations*.

The same way that Smith was admired for his work, he was, and has been the topic of much critique. As some scholars consider capitalism to be a corruptive and oppressive system, other scholars continue to examine and interpret Smith's works to determine the message that Smith tried to get across when he was writing *The Wealth of Nations*. As Robert A. Black (2006, p. 7), professor of economics at Houghton College states in his article titled, "What did Adam Smith Say About Self-Love?" that

many critics blame Smith for transforming political economy into what he called “the science of egoism” or that greed and self-interest are good. Black also mentions that critics do not consider Smith’s mention of self-love when they are making their criticisms.

As opposed to appealing to greed, Black suggests that Smith appeal’s to other’s self-love and not necessarily our own. Additionally, the consideration of only self-love versus generosity or compassion also fails to do a complete job at analyzing Smith’s message. Black goes on to examine sections in *The Wealth of Nations* and interpreting them in a self-love context. Some of those sections will also be studied in the following chapter to give a perspective on the society that Smith considered benefiting society as a whole.

As one of the most influential figures in the field of economics, it is not surprise that many scholars have quoted the following chapter in book 1, chapter 2 of *The Wealth of Nations*

It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. (Smith 1776, p. 14)

Even though this passage seems to suggest that we should disregard their humanity, this is not the case. This passage also seems to contradict some of the principles discussed by Smith like sympathy in his book *The Theory of Moral*

*Sentiments*. The main source of confusion, according to Black (2006, p. 8), comes in the misunderstanding of the words *self-love*, *selfishness*, *sympathy*, and *benevolence*. For the purpose of interpreting this topic to its most pure state, I will leave these definitions verbatim as Black wrote them in his paper.

*Selfishness* means to attend to one's own interests without regard to or at the expense of, others. *Self-interest* and *self-love*, which Smith uses interchangeably at times, probably for variety of expression, mean attending to one's self interest but not necessarily others' expense.<sup>7</sup> ... *Sympathy*, for Smith, meant the "fellow feeling with any passion" (as opposed to feeling only "pity and compassion" for others; see *Theory of Moral Sentiments*, 10). Feeling for another's passion, whether joyous or tragic, start with feeling for one's own passions. For Smith, self-interest and sympathy are not opposites. One's "sympathies" are by nature first and foremost with himself and then with "the members of his own family" and with his "earliest friendships" (TMS, 219). Personal sympathy could extend beyond immediate family and close friends, and social sympathy could reach beyond one's own nation, but the feelings diminish as the reach extends. The greater is the reach of one's sympathies, the greater the virtue ... One more term, *prudence*, further reveals the link in Smith's between self-love and either virtue or vice. "Security ... is the first and the principal object of prudence. It is adverse to expose our health, our fortune, our rank, or reputation, to any sort of hazard" (TMS, 213). Prudence is risk adverse, "rather cautious than enterprising, and more

anxious to preserve the advantages we already possess, than forward to prompt us to the acquisition of still greater advantages” (TMS, 213).

Pudence is a virtue when it promotes our self-love without harming another, “yet it never is considered as one, either of the most endearing, or of the most ennobling of virtues” (TMS, 216).

Now that we have an understanding of what these terms mean, according to Black and the editors of *The Theory of Moral Sentiments*, we can now tackle the passage with the butcher, the brewer, and the baker. Did Adam Smith suggest that we should only act as selfish creatures that only care about our own desires? The answer, according to Black is no. Black (2006, p. 17) writes that one is more able to meet one’s needs and wants if we appeal not to the benevolence of others but their self-interest. In other words, we must consider that in order to meet our needs, we need to show the other person how our commodity benefits them. In the perspective of the shopkeepers, Black argues the same text could have been written the following way

It is not from the benevolence of the customer that the butcher, the brewer, or the baker make their livings, but from an appeal to the customer’s desire for a good product at a fair price. To meet his own needs, the butcher must not plead about how poorly his family is doing but about how well he will cut the meat and trim the fat. (p. 17)

Once we understand the passage in this context, it is evident that Smith was not disregarding the human aspect or humanity from another person, but rather,

engaging in a trade where one could identify the other's needs. This way, all involved in trade are benefited. In contrast, if one attempts to barter solely based on people's benevolence, it might be difficult to receive compassion from others and therefore a trade would not occur. A beggar does not suit himself as a beggar. Basically, simply depending on the benevolence of others to obtain something might only work in the short-run and also, we are less likely to feel benevolence for someone whom we do not know. For that reason, the beggar must appeal to others' self-love in order to gain something from them. For example, in the street of downtown Portland, some beggars are not just appealing to the benevolence of others because as they might have found out, that strategy is not as efficient as if the beggar were playing the drums with as few different buckets or by having a comedic sign to entertain people. The latter, whether the beggar is consciously doing it or not, is appealing to others' self interest as they also gain something from that transaction; whether it be entertainment or laughter.<sup>8</sup> Next, a clear distinction must also be made between benevolent and self-interested exchange. As Black (2006, 17) puts it, benevolent exchange refers to a self-interested appeal to others' benevolence and self-interested exchange refers to a self-interested appeal to others' self-love. Simply put, the first is through begging and the latter occurs through exchange.

Finally, let us remember that once this new context is introduced and analyzed in *The Wealth of Nations*, it now makes more sense that Smith wrote regarding to the increase in well-being of society rather than greed and amassing of wealth. As Black (2006, p. 21) also writes, this background knowledge also serves as a correct understanding to Smith's idea of human behavior and his appeal towards self-love.

Self-interest is the sufficient condition to motivate commerce while benevolence is an extra, it is not unwelcome but it is not necessary. As for justice, Black says it is also necessary for commerce and society but it is not guaranteed.

After inquiring into Smith's work and contributions, another topic is also of importance as we study Classical Political Economy. This is the topic of value. Value has also been developed throughout the years with contributions from early scholars like the "Pre-Adamites" to many scholars after Smith's death. Post-Smithian Scholars will be discussed in the next section.

### **Philosophers After Smith**

The work done by Smith was extensive and read by many scholars of his day and even today, his books are considered important in the discipline of economics. As the main contributor to Classical Political Economy, he contributed a key idea. Before we delve into this idea, let us consider the three main contributors of Classical Political Economy: Adam Smith, David Ricardo, and Karl Marx. Even though it is important to investigate the work of these scholars, it is also important to study Quesnay who also contributed to this school of thought in economics. As mentioned at the beginning of this paper, in Quesnay's *Tableau Economique*, he breaks down the population between productive and unproductive labor. According to Quesnay, productive labor is that which creates surplus. Quesnay laid out a foundation that was important in the development of this area of study. His main contributions to this are the *Tableau Economique* that we discussed about earlier. He also introduced the idea of "surplus" which was also discussed by Smith, Ricardo, and Marx during their lifetime. Quesnay

also goes into the production and distribution of this “surplus.” According to Quesnay, surplus was produced by the productive sector and then distributed to the proprietor and sterile sectors. The surplus would then cycle around these three classes until this surplus diminished. After Quesnay, Adam Smith brings a number of ideas to this school of thought. His contribution of labor serving as a source of value will be discussed.

Later known as Adam Smith’s Labor Theory of Value, Adam Smith introduces the idea that a commodity is worth the amount of labor that has been put into that commodity. In his famous example of the production of pins, Smith [1776] explains how a workman without any training or equipment, could make one pin a day. On the other hand, a group of men working in a factory divide their work into different stages. This way, as Smith mentions, they are able to produce about forty-eight thousand pins per day. In short, Adam Smith mentions that the “division of labor” is the main contributor in the increase of production of pins. The case can also be made about the production of any good or commodity. In his book *An Inquiry into the Nature and Causes of the Wealth of Nations*, Adam Smith also mentions the important role played by machinery. Machinery and other ways of breaking down the amount of work done in every step is also a factor in the increase of efficiency. Smith also considers the value of a good.

Value is used in two different ways, value in use and value in exchange. Smith says that labor is required to produce a good. Keeping this in mind, Smith delves into the value in exchange of a good. Heilbroner (1996, p. 86) writes that according to Smith the price, or value of a good depended on the relation between “market prices” and “natural prices.” In other words, prices would balance out depending on

the demand and supply of a good. In short, prices would reach equilibrium and in so, they would remain fair. Of course, competition also plays a role in the determination of the price of a good. Where there exists competition, both buyers and sellers will seek a price that is fitting for them. This means that as competition rises, sellers would need to lower prices in order to remain competitive in the market place. However, this is a whole subject of discussion that won't be discussed in this paper. We will discuss the ideas put forth in Adam Smith's successor in the discipline: David Ricardo.

In his book *Principles of Political Economy and Taxation* [1817], Ricardo picks up on Smith's idea of value and elaborates on it. Just as Smith had mentioned, Ricardo also writes that a commodity has both a utility and an exchange value. Both are important because without utility from a good, it is not worthwhile to buy or exchange that good. The reason why Ricardo's publication is important to the subject of value is because he clarifies the problematic in Smith's book.

Ricardo [1817] claimed that the labor put into a commodity and the amount of labor that that commodity could buy were not the same. In other words, Ricardo did not completely agree with Smith's notion that labor was the main factor in determining a commodity's value. Ricardo [1817] argued that, "If among a nation of hunters, for example, it usually cost twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for, or be worth two deer. It is natural that what is usually the produce of two days', or two hours' labour, should be worth double of what is usually the produce of one day's, or one hour's labour" (4). Basically, Ricardo measured a commodity's value based on the cost of labor.



Ricardo also claimed that if we base value of labor alone, we would find it problematic once the value of a commodity changed in the market. He essentially gives an example similar to the following: if a laborer gets paid a bushel of corn for a day's work when the price of corn is \$80 and a bushel and a half when the price of corn is \$40, Ricardo asks "will labor value have risen or fallen?" The answer, According to Smith, would be both, labor value rose because the laborer now has more corn for the same work and labor value fell because the buying power of the corn is now worth less on the market. For this reason, Ricardo clarified that it is best to determine a commodity's value in exchange based on the cost of labor. Just as Ricardo continued the work of Smith, Ricardo also had a successor who continued the work done by these two thinkers.

Karl Marx carried the ball and contributed his part to this idea of value. Marx [1867] writes that use value is the utility of a given commodity. Likewise, an exchange value is a proportion of one commodity's value in use for another commodity. In other words, how much of one good it takes to obtain another good. Karl Marx is very well read and he continues the work laid out by those before him. He accepts the idea of productive and unproductive people. According to him, productive people were those who produced surplus. Notice that Marx and Quesnay had the same ideas when it came to productive and unproductive people; although their ideas were slightly different. Marx also divided society into workers and capitalists.

In Marx's view, workers created surplus and owners kept it. Let us keep in mind that Marx lived during the time of the Industrial Revolution where factories were abundant and work had been narrowed to homogenous labor. Like Smith and Ricardo, Marx also tries to explain the exchange value of a commodity. He spends a lot of time trying to explain exchange value and essentially aligns with Smith and Ricardo's thought that labor is important in determining a good's exchange value.

All the thinkers who have influenced the Classical Political Economy school of thought greatly influenced their successors and continue to influence us today. Let us note that Smith, Ricardo, and Marx all agreed that the exchange value of a commodity was influenced by the labor embodied in it. Smith, thinking in a much earlier time than Marx, developed his ideas thinking of heterogeneous labor while Marx thought of labor as a homogenous thing. Smith lived during an era where skilled and unskilled labor was common. Marx on the other hand, lived during the industrial revolution where a ten year-old kid could perform the same work as a thirty year-old man. These thinkers added their own piece to the puzzle of economics and even though the surface was only scratched when it came to their ideas and contributions, this paper tries to simplify, compare, and analyze their ideas on value. Marx plays an important role in the development of Classical Political Economy.

The School of German Idealism dominated German thought for much of the 18<sup>th</sup> and 19<sup>th</sup> centuries. Georg Wilhelm Friedrich Hegel was a theorist under this line of thinking. According to Hegel and his followers, the idea comes first. In other words, everything that is important begins with an idea. This process works first by the idea creating a thesis, countered by an antithesis, leading to a synthesis. This then

formulates a new thesis and the cycle continues until everything is resolved. Also known as the Dialectic Process, the Hegelians used this method to share and articulate their ideas. This School of German idealism did not align with Marx's approach to thinking. Marx and Engels were a team in their publications. Both published *The German ideology* in 1845 and they introduced a different way of thinking.

In his 1845 publication titled *The German Ideology*, Karl Marx introduced a new approach to thinking following the Hegelian thought process. Marx [1845, 42] argued that material things came prior to the idea. Essentially, Marx stood Hegel on his head. With this conception of the world, Marx proposed that we use the world to produce our substance. According to him, we are different from animals because we are able to produce our own method of survival. For this reason, we must consider our material world first because that determines our consciousness. This was how Marx introduced materialism to the world. Marx considered the materialistic approach to be a more accurate to view the world. This "dialectic materialism" approach emerged in response to what Marx viewed as problematic with the "Idealist" thought of history.

The Hegelian view of the world was problematic to Marx because Marx [1845, 41] claimed that Hegelians only argued against ideas rather than dealing with real-world problems. He also contended that real concepts were more important to deal with than arbitrary ones. In pondering on real problems, humans are better able to deal with them and to provide a solution to them. Marx goes on to describe his

method outlining the positive and negative principles embodied in this historical materialism. Although Marx considered his approach to be more effective, no great ideology comes without its difficulties.

Marx outlines the materialist method. As mentioned earlier, men are able to make their own means of survival. For this reason, it is important to consider, as Marx mentions, not only what is produced but also how it is produced. The basic principles of Marx's historical materialism can be broken down into the following parts: production, mode of production and social classes, and conflict between classes and the outcomes. Marx introduces a concept introduced earlier by Adam Smith, the division of labor. Production is important when considering the materialistic method. For without production, there is not much material to consider. This division of labor then creates a separation of industries. Both industrial and commercial sectors separated from agricultural work. In other words, the urban and rural regions created conflict because they had different interests. Separation continues in smaller scales and due to the division of labor there arises a division among people. Basically, the development of the division of labor coincided with the various forms of ownership. This is broken down into three forms of ownership: *Stammeigentum*, Ancient City States, and Feudalism.

The first form of ownership, tribal, is related to undeveloped production. The division of labor is determined by family extension. In this stage, both ownership and the division of labor are not well developed. Next, Ancient City States have more development of the division of labor as they are also more developed in their form of

ownership. There is a distinctive relation between owners of land and slaves. Lastly, Feudalism consisted of the ruling class controlling the production of land and the peasantry cultivated the land. Again, the division of labor is further extended in this stage due to the existence of a more developed form of ownership. In each of these stages, there exists a division of classes; there is a ruling class and a working class. Each stage transcends when the working class overturns the ruling class. In class we have discussed the “stages of history” approach developed by Marx. Through this approach, Marx argued that the division of labor determines social classes and will create conflict. This conflict between the classes will lead to a revolt of the ruling class and a different way of living. The previous forms of ownership are a prime example of humanity’s transition between social forms of living.

Marx observed Feudalism and Capitalism. He saw capitalism as the next step in history and a transitional stage in human development. The next logical question then becomes, what happens after capitalism? If we follow Marxian theory, capitalism is a transitional stage that will lead to conflict, workers will win and socialism will emerge. During socialism workers will own the means of production through the state. As expected, socialism will also be a transitional stage to communism. The ultimate answer is, according to Marx, communism. In this utopian society everyone is equal and poverty would be nonexistent. Marx’s thinking is inherently revolutionary.

Marx’s ideas and theories are still relevant today. His thinking has influenced the world for ages. Marx is a revolutionary in his thinking mainly because his ideas

and stages of history require a revolution from the working class to advance to the next stage of development. Marx saw each stage as necessary in order for humans to develop as a race and to continue with our advancement in history. We cannot go from having a horse carriage to flying cars without having other stages in between. Marx understood this in our human advancement and knew other things had to happen in order for humanity to live fully free and with equality.

### Conclusion and Discussion

This inquiry has sought to establish that Adam Smith relied upon his books *The Theory of Moral Sentiments* [1759] and *An Inquiry Into the Nature and Causes of the Wealth of Nations* [1776] as complementary texts to introduce and develop his ideas. The division of labor is one of the main factors contributing to the increase in the wealth of nations. As a diligent observer of the emergence of factories, Adam Smith details an instance where he witnesses the breakdown in labor where he notices the increase in productivity brought by such division of labor. From that observation, and through his great intellect, Smith was able to articulate the benefits from dividing up the work into small tasks: an increase in skill of the worker, time saved in only doing small tasks and avoiding the shift from one task to another, and finally, the invention of proper machinery. This essentially leads to a surplus.

The important argument with surplus is, how will this affect society as a whole? It turns out, we as intelligent beings will trade commodities in order to obtain something else we need. Because of this trade, everyone is better off. Our ability to

exchange goods is what makes us different from other mammals. Smith concluded that the division of labor and our ability to exchange goods contributed to the increase in our standard of living. No great work comes without its critique. In Smith's case, the consideration of his earlier book, *The Theory of Moral Sentiments*, is essential when interpreting *The Wealth of Nations*, according to professor Robert Black, to be a text about "self-love" rather than selfishness. Again, it is important to read and understand the content of the first book in order to accurately interpret Smith's later book. We cannot expect to fully understand integral calculus without first having a good grasp on derivatives. There is no question Adam Smith laid out the foundation to Classical Political Economy through his inquiry and his writings continue to influence scholars today. As conclusion of this inquiry, the most important aspect of the division of labor is the benefit of an increased standard of living provided by the increase in the efficiency of workers.

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<sup>1</sup> In *Teachings from the Worldly Philosophers*, Robert Heilbroner [1996, p. 56] also suggests that Smith's primary interests were political, not economic.

<sup>2</sup> These Biblical writers are Aristotle and Aquinas.

<sup>3</sup> These writings were not part of *Wealth of Nations* but in a set of lectures delivered by Smith while at University of Glasgow in 1762-1763 (Smith 1971).

<sup>4</sup> According to Rosenberg, "these lectures were at about the same time as his *Lectures on Justice, Police, Revenue and Arms* (Smith 1956).

<sup>5</sup> "This scheme of making the administration of justice subservient to the purposes of revenue, could scarce fail to be productive of several very gross abuses. The person, who applied for justice with a large present in his hand, was likely to get something more than justice; while he, who applied for it with a small one, was likely to get something less. Justice too might frequently be delayed, in order that this present might be repeated. The amercement, besides, of the person complained of, might frequently suggest a very strong reason for finding him in the wrong, even when he had not really been so. That such abuses were far from being uncommon, the ancient history of every country in Europe bears witness" (Smith 1937, p. 6750).

<sup>6</sup> These problems have persisted throughout the ancient world. "The case was the same with regard to the Aeropagus and the Council of Five Hundred at Athens. Their number was too great to restrict them from arbitrary and summary proceedings. They would here pay as little regard to the proceedings of former judges as those did who at the same time possessed the office of general along with that of judge. The praetor at Rome, indeed, often

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borrowed from the decrees; but then nothing could be quoted as law to him but what was found in his edict, which was put up at the beginning of each year, and in which he declared in what manner he was to regulate his conduct. (This was the custom till the time of the Edictum Perpetuum). He would have taken it as a great affront to his judgment to have been told that such an one before had done so-and-so. And no part of the former edicts could be quoted but what was transcribed into his, and in his name it was always to be quoted. There was therefore no room for precedents in any Judicial pleadings amongst the Greeks or Romans..." (Smith 1971, pp. 169-70).

<sup>7</sup> Black writes that, according to the editors of *The Theory of Moral Sentiments*, self-love is an eighteenth-century expression for self-interest.

<sup>8</sup> I do not suggest that beggars or the homeless population in Portland, OR to be anything less than human beings and their misfortunes are not to be looked down upon.