

“Universal Opulence”: Smith on Technical Progress and Real Wages

Dr Tony Aspromourgos
Department of Economics
University of Sydney



“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, seems to have been the effects of the division of labour.”

[Smith, 1776]

By Marcus Suresh
Murdoch University
The 22nd History of Economic Thought Society of Australia Conference

Proudly supported by:

Ron Manners
&
Mannkal Economic Education Foundation

Abstract

This document outlines a paper produced and presented by Dr Tony Aspromourgos at the 22nd History of Economic Thought Society of Australia conference. The conference was held at Notre Dame University in the port city of Fremantle, Western Australia on the 14th-17th of July 2009. The paper is titled “Universal Opulence”: Smith on Technical Progress and Real Wages.

I extend my appreciation to Ron Manners and the Mannkal Economic Education Foundation for their generous support and devotion towards free market ideologies.

As Friedrich Von Hayek once said:

“If we wish to preserve a free society, it is essential that we recognize that the desirability of a particular object is not sufficient justification for the use of coercion.”

[Hayek, 1978]

Contents Page

EXPOSITION OF THE PAPER	4
LITERATURE REVIEW	4
DIVISION OF LABOUR AND TECHNICAL PROGRESS.....	5
THE THEORY OF REAL WAGES.....	6
COMMERCIAL SOCIETY AND 'UNIVERSAL OPULENCE'	7
CONCLUSION.....	8
REFERENCE LIST	9

Exposition of the Paper

It was a sheer pleasure to once again be reunited with the joys of Adam Smith and in particular, Dr Tony Aspromourgos' interpretation of Universal Opulence forming the crux of Smith's monumental 1776 paper titled *An inquiry into the Nature and Causes of the Wealth of Nations (The Wealth of Nations)*. In the current General Financial Crisis, the importance of economic history and thought is highlighted in such a way as to provide a foundation upon which Universal Opulence may be restored. The following paper serves as a synopsis of Aspromourgos' paper titled "Universal Opulence": Smith on Technical Progress and Real Wages. The paper will reiterate the main points in which Aspromourgos presented during the 22nd HETSA Conference. Aspromourgos aims to consider real wages in a competitive commercial society and the relationship with technical progress. This report on Aspromourgos' paper is divided in to three parts, focusing specifically on the major issues discussed in the paper. These include; the Division of Labour and Technical Progress, The Theory of Real Wages and Commercial Society and Universal Opulence.

Literature Review

Smith, who is considered the father of modern economics, detailed in *The Wealth of Nations* the concept of the division of labour, an idea so powerful the advantages were numerous. The division of labour yielded higher productivity in the manufacturing sector and thus greater output in the macroeconomy eventuating into general and Universal Opulence, transforming the level of subsistence of all ranks of society [Smith, 1776 and White, 1976].

Division of Labour and Technical Progress

The ground-breaking works of Smith in his masterpiece, *The Wealth of Nations* gave rise to the commonly known concept of the division of labour. As Smith described:

“The greatest improvements 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, seems to have been the effects of the division of labour.”

[Smith, 1776]

Smith argues that the division of labour is synonymous with labour specialization and that subsequent productivity gains are the desired consequences of division of labour leading to enhanced skill and dexterity. This concept being so influential, The Bank of England commemorated the notion of the division of labour on the reverse side of the twenty Great British Pound note depicting Smith’s famous pin factory analogy being a prime example of the division of labour. Smith explains that by allotting tasks of different specialty to individuals, a pin factory that adopted a division of labour approach would be able to produce tens of thousands of pins per day [Smith, 1776 and Bank of England, 2006]. Smith juxtaposes this idea with each worker attempting to produce pins from start to finish, would consequently only achieve a limited number of finished products. The division and specialization of labour seems to exhibit one possible externality, an advantageous surge in the productivity of labour and laborers. *The Wealth of Nations* however constitutes an additional dimension of competition and a never ending pathway of material self betterment, generated by technological change. Smith explains that productivity gains brought about from the division of labour and technological change is more profound in the manufacturing sector and is derived from three sources; improved labour dexterity, time-saving from no longer shifting between tasks and the introduction of and innovation in machinery [Aspromourgos, 2009].

The division of labour has a wider application according to Smith. The concept of general opulence is introduced as being a state of high consumption. Thus Universal Opulence is the extension of high consumption amongst all societies. Smith explains that in order for wide spread Universal Opulence to coexist; the whole world is to be exposed to a global market which produces and specializes in a variety of labour forms [Meek and Skinner, 1973 and Rosenberg, 1965]. Exposing the entire world with a variety of labour via international free trade enables the dynamic benefits of the division of labour to spread to neighboring economies thus the greater extension of markets also implies greater extension of the division of labour to other economies [Aspromourgos, 2009]. The division of labour therefore favours tendencies for Universal Opulence amongst nations.

The Theory of Real Wages

The dynamic nature of Smith's division of labour with regards to technological change therefore must be associated with functional income distribution changing continuously. Smith here describes that real wages is derived from enhanced labour productivity [Rosenberg, 1965 and West, 1964]. Referring once again to the pin factory analogy, when each production stage is divided into individual branches and individuals are given their own specialized tasks, labour productivity rises and output of pins increase significantly. This eventuates into a rising level of subsistence real wage amongst labourers. Smith also agrees that the wages of inferior classes of workmen are also regulated by two additional conditions;

- Demand for labour, and
- Average price of the provision.

Firstly the demand for labour being either; increasing, steady or declining regulates real wages used to maintain their subsistence. The degree of subsistence being "*liberal*,

moderate or scanty” is correlated positively with the demand for labour. Similarly the average price of provisions determines the quantity of money payable to the workman who then dictates the level of subsistence purchasable [Smith, 1776 and Aspromourgos, 2009].

Commercial Society and ‘Universal Opulence’

For Smith, ‘opulence’ has the ability to enrich the lives of people. Smith describes opulence and prosperity to be contrasted with opposing terms such as poverty and distress. Naturally, opulence is the ultimate purpose of political economy. The contagion widespread and universal increase of output per worker whilst introducing the assumption of *well-governed* economies extends itself to ‘opulence’ on a universal scale. Such ‘Universal Opulence’ reaches individuals from the highest to the lowest ranks as described by Smith:

“A general plenty diffuses itself through all the different ranks of the society.”

[Smith, 1776]

Smith accounts for opulence in a commercial society via a natural progression of self betterment. Whilst it is true that productivity growth, lends itself to higher output and high consumption, all of which are crucial for opulence, Smith states that:

“The uniform, constant and uninterrupted effort of every man to better his condition is the principle from which public and national, as well as private opulence is originally derived, because from that principle comes the accumulation of capital.”

[Smith, 1776]

Smith explains that the desire for wealth and improvement is achieved via frugality, good rational conduct and the uninterrupted effort of self betterment. It is precisely this uninterrupted effort that creates a path of progression towards Universal Opulence in both the man and the commercial society [Smith, 1776 and West, 1964].

Conclusion

The division of labour and technical progress described by Smith in turn enhances the productivity per worker. Labour specialization enhances productivity of the labourers and since real wages is derived from labour productivity, the growth in real wages raises the level of subsistence that extends through all ranks of society. This being true, coupled with mans effort to better his conditions extends opulence universally and perhaps the universal cause of the wealth of nations.

Reference List

- Aspromourgos, T. [2009] *The Science of Wealth: Adam Smith and the Framing of Political Economy*, London: Routledge.
- Bank of England. [2006] *Adam Smith to feature on new banknote*, London.
- Hayek, F.A. [1978] *The Constitution of Liberty*, Chicago: University of Chicago Press.
- Meek, R.L and Skinner, A.S. [1973] *The Development of Adam Smith's ideas on the Division of Labour*, *Economic Journal*, 83:1094-1116.
- Miles, D. [2005] *Macroeconomic: Understanding the Wealth of Nations*, England: Chichester.
- Rosenberg, N. [1965] *Adam Smith on the Division of Labour: Two views or one?*, *Economica*, 32; 127-39.
- Smith, A. [1776] *An inquiry into the nature and causes of the wealth of nations*, London: Clarendon.
- Stigler, G. [1954] *The division of labour is limited by the extent of the market*, *Journal of Political Economy*, 3:185-193.
- West, E.G. [1964] *Adam Smith's Two Views on the Division of Labour*, *Economica*, 31; 23-32.
- White, D. [1976] *Review: Adam Smith's Wealth of Nations*, *Journal of the History of Idea*, 37: 4, 715-720.