Adam Smith, the Division of Labor, and the Rise of Capitalism

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During the eighteenth century, Enlightenment philosophers spread the notion of equality among mankind. Building on ideas from the Renaissance that preceded it, Enlightenment philosophers became motivated to document natural laws, such as gravity and to develop theories on the proper role of government. In the midst of this time period, Deism became a popular philosophy, maintaining that while God created the world, He did not play an active part in it. Consequently, individuals could shape their own destiny. Questioning God's presence in society spurred further inquiry over whether God actually gave power to monarchies as they long maintained. The status quo dissipated as philosophers and revolutionaries brought challenges to Europe's monarchs, promoting the ideals of a republican form of government. As an Enlightenment philosopher, academic, and economist, Adam Smith promoted economic individualism as the best way for men to shape their own destiny.

The ability to shape one's future was a basic premise of the Enlightenment (Wells & Graafland, 2012, p. 321). Shaping one's destiny meant that individuals could attain a higher social and economic standing in society. According to Smith, hard-working individuals with virtues, such as morality and prudence, could achieve wealth in large-scale economies that had limited governmental interference. With limited oversight, individuals would pursue specializations, based upon societal needs that would cater to their own self-interests. Smith referred to this specialization as a "division of labor," which became the basis for the economic system that powered the Industrial Revolution, capitalism (Rahim, 2011, p. 104).

Before European nations embraced capitalism, they followed an economic system, known as mercantilism. Under this system, nations competed against one another in pursuit of gold and silver that would enrich the pockets of Europe's Kings and Queens. Ordinary people were asked to sacrifice in order to enrich the monarch, which translated to power for the nation. With the rise of the Enlightenment, individuals became free to pursue their own goals, rather than those of the monarchs. Capitalism offered economic individualism, in which workers could attain upward mobility, which was not possible during the Middle Ages. When Adam Smith opposed governmental interference in the economy, it was in the face of interference that benefited the crown as opposed to the people (Koenig & Waters, 2002, p. 247).

Under capitalism, Smith maintained that individuals and companies would succeed or fail based on the choices that they made. Only if they were responsible and accountable for the choices that they made would they make prudent decisions. Emphasizing the importance of prudence, which was a virtue promoted by Adam Smith, business economists Thomas Wells and Johan Graafland (2012) explain that the "voluntary nature of market transactions directs individuals to evaluate the worth of their activities and products from the perspective of their customers and business partners. They will compare their practices with their competitors' and consider what they might improve about themselves" (p. 327). Young workers entered the workplace with the ultimate goal of reaching management and/or obtaining their own businesses, which could net them income potential based upon their skills, market demand, and competition in the field they pursued (Perelman, 2010. p. 482; Rahim, 2011, p. 95). Through this division of labor and hard work, individuals could secure a prosperous future for themselves.

While Smith maintained that hard work was a necessary pre-requisite in order to achieve wealth, he also realized that working long, laborious hours could have negative implications on one's health. This was especially the case, according to Smith, in industries that paid workers heavily for each piece that they completed. Economist Michael Perelman explains that Smith likely believed that “such outcomes would not occur if employers did not pay too much” (Perelman, 2010. p. 482). While Smith realized that over-work could have health effects, Gilbert (1997) points out that Smith did not discuss what fate would befall those individuals who became sick, injured, or too old to work (p. 277). Instead, he focused on a problem-free scenario, explaining that reaching management was part of a work cycle; individuals began in poverty during their youth and through discipline and hard work, entered management, which made them more prosperous by the end of their lives (Perelman, 2010. p. 482).

Since he died in 1790 before the Napoleonic Wars between England and France and the invention of the steam engine, which heavily spurred industrial growth in England, he was not privy to the horrendous treatment that workers would in the decades that followed. Before Great Britain’s government implemented a series of Factory Acts beginning in the 1830s to improve working conditions, workers labored for two-thirds of a day, under deplorable conditions, with a requirement that men sell their wives and children into a life of labor in the factories (Trevelyan, 2000, pp. 107-108). Trevelyan explains that “in the vacant misery of such a life, two rival sources of consolation, drink and religion, strove for the souls of men” (p. 112).

Smith would have deplored such treatment as he promoted a concept, known as the “impartial spectator.” According to Smith, while individuals conduct work in their own self-interest, they must also follow virtues, such as morality. They must consider in a utilitarian manner how their actions can improve society as a whole (Gonin, 2014, p. 223). He contended that workers who labor for another should not be subject to abject poverty (Gilbert, 1997, p. 284). Smith maintained that providing a “liberal reward” to workers would increase productivity. Providing low wages, below subsistence, was counter-productive and immoral to Smith, who contended that workers must be stakeholders in their employment. Well regarded and paid workers are most likely to suggest new methods for improvements in the development process (Koenig & Waters, 2002, pp. 247-248). Smith considered companies that focused on short-term gains for themselves at the expense of considering societal needs to be immoral (p. 246).

Smith, who died in 1790, did not live long enough to see relief for the workers who faced hardships in the factories. However, he viewed industry as superior to anything that preceded it. He asserted that commercialism was the last stage in the development of civilizations, which began in the cave man days, advanced with the introduction of bartering and trading items, such as cattle, prospered under agriculture, before reach the final stage of civilization, commercialism (Rahim, 2011, p. 96). In the earliest stage of civilization, Smith attests, poverty did not exist; it only manifested after people moved beyond the first stage of civilization. Poverty, according to Smith, arose naturally from the "various degrees of capacity, industry, and diligence in the different individuals" (Gilbert, 1997, p. 280). As an Enlightenment philosopher, he believed that everyone has similar potential but some are more driven to achieve greatness and those are the individuals who help to grow the economy (Rahim, 2011, p. 98).

How prosperous individuals became depended on their career path! Deciding on one's career path rests on a humbling self-reflection of each individual's capabilities and the types of products and services needed by society. Individuals market their work based on their skills, which determines how much money they can attain. Companies hire individuals who meet their needs to produce quality products, and utilizing prudence of their own, companies will determine the types of products sought by consumers. Choosing wisely could provide a lucrative economic return for a company, but failing to use prudence in making decisions could result in financial disaster. While prudence is important in decision-making, Wells and Graafland (2012) note that it can be challenging in terms of making long-term decisions (p. 327).

Smith believed that the key to commercial success rested not just with a division of labor in terms of individual specializations but also internally within each company. Rather than having one individual producing the totality of a product, each individual should be a cog in the wheel. Using that same logic, he contended that businesses could be more productive by having one particular group of workers focus on one product, rather than dividing their labor among multiple products (Negishi, 2000, p. 6). To make his point, he utilized an allegory of a pin factory, which was a common story in his day to explain how businesses could be most productive. Smith explained that an individual who worked by themselves could only produce a few dozen pins in a day, but if that worker worked as part of a team and was only responsible for one aspect of pin-making, such as straightening metal or cutting it, tens of thousands of pins could be produced in a day (Perelman, 2010. p. 482).

Perelman discounts Smith's pin-making example as mediocre and asserts that the "production of pins helped Smith to obscure the nature of class relations. Smith projected an idealized vision of a world with a thoroughly established division of labor. In this world, everybody—workers and capitalists alike—was a merchant, equally selling wares on a free and open market" (Perelman, 2010. p. 482). Capitalists made money by employing labor to produce a finished product that could be sold for a profit, whereas workers, through their hard work, made money producing products that they could utilize to purchase goods and services for themselves (Coovadia, 2008, p. 89).

Smith saw money as the great equalizer that created a harmonious workplace and society, in which everyone completed work for their own self-interest. However, economic historian Sumitra Shah (2006) notes that while the father of economics maintained that workers and businessmen relied on one another, he neglected to discuss the vital role that women played in society, which has come to be known as the sexual division of labor. Smith only attributed societal value to work that generates profit; this excluded the vital role of women in maintaining the household. Downplaying the character of women, he characterized them as naturally sympathetic, in contrast to men, who he depicted as possessing greater generosity. Taking exception with that view, Shah (2003) asserted that women did not have the same opportunities as men in the workplace to engage in things, like charitable endeavors (p. 233). While Smith did not consider women within the division of labor, he exaggerated the scope of his pin-making example. Perelman notes that Smith first told his college students that a team could make 2,000 pins per day, but that number skyrocketed to 4,800 per day when his seminal work, *The Wealth of Nations* was published. According to Perelman, Smith accounted for this higher number by stretching the division of labor necessary to produce pins back to the initial mining stage (Perelman, 2010, p. 484). Using this premise of including all facets necessary for production to be achieved, women should be included in the division of labor as their work in overseeing the household was necessary to enable men to focus on commercial tasks (Shah, 2003, p. 239).

If individuals were driven to action based on self-interest as Smith contends, then women would not subject themselves to tasks that did not offer them recognition within society. Shah (2003) maintains that "women are conditioned to usually put the welfare of their loved ones ahead of their own and they will often sacrifice their own happiness for others" (p. 233). This is hardly a surprise to Shah, as she notes that Smith felt that the rich should dominate society and all others should be subservient to them, including women. Writing in the midst of the Enlightenment, which focused on the development of natural laws, Smith felt that such dominance was "natural" (Shah, 2003, p. 234). Men's physical prowess also made them more apt to serve in the military, which would be necessary to defend the interests of the upper class from those at the bottom of society (Shah, 2003, p. 234). This served to reinforce patriarchal values, in which only commercial work done by men was deemed important.

The Industrial Revolution not only left women in a subservient position but it also limited the power of manual laborers. Before the Industrial Revolution, individuals provided skilled manual labor to capitalists. Skilled laborers performed this work out of their household or in small nearby shops and were compensated for every item they produced (Koenig & Waters, 2002, p. 243). This business model shifted during the Industrial Revolution as machines did not require specialized skills or education to operate them. Since products could be produced quicker, cheaper, and in greater numbers with these new machines, it rendered the work of skilled, manual laborers obsolete (Trevelyan, 2000, pp. 109-110).

With the advent of the Industrial Revolution, Coovadia (2008) argues that the division of labor that Smith promoted was outdated as the division of labor "only makes sense when it exploits human expertise, but machines perfectly reproduce expertise" (p. 93). Koenig and Waters (2002) disagree with Coovadia's assessment, maintaining that Henry Ford's automobile production line, at the turn of the twentieth century, was the epitome of the division of labor. They contend that Ford's division of labor "was not only carried out in factories, [but] it was the basis for the operation of the market system as a whole" (p. 248).

Smith lauded manufacturing as a way to improve the well-being of the entire society as capitalists spent money on businesses that provided jobs, instead of relegating their wealth to purchasing servants, which only benefited themselves (Gilbert, 1997, p. 281). The Industrial Revolution made it possible for England, which was already an economic and military powerhouse, to expand exponentially beyond its borders. By combining resources such as coal and iron, building canals, and utilizing transportation methods, such as railroads and steamships, factory products made in England and elsewhere could reach more places than ever before (Wallbank & Taylor, 2000, pp. 60-61). Territorial expansion was not something that Smith championed as it resulted in government interference with the economies of the places they colonized. Smith stressed that colonies should focus on their own needs, promoting industry, as opposed to focusing on things that could benefit England, such as raw materials. Colonies, however, were forced to serve the needs of the mother country (Perelman, 2010, p. 495).

According to Smith, a nation's greatness depended on its economic status, which was based on the competence of managers who were put in charge of workers. If management oversaw a high amount of output from their workers, excess resources could be exported, which would make the country wealthier. As the nation became wealthier, more businesses would be established, which would generate more revenue, and ultimately higher wages for everyone in the nation (Koenig & Waters, 2002, p. 244). For that reason, Smith contends that governmental efforts to promote a redistribution of wealth to help the less fortunate would have disastrous consequences for the economy as individuals would be less motivated to produce (Gilbert, 1997, p. 280). He argued that the government's role in society should be relegated to dispensing justice in order to protect the wealth of successful individuals and to engage in public works, such as building roads and bridges, which he did not feel would be undertaken by individual companies. Smith also believed that the government should mandate education for all individuals “to counter the deadening effects of the children’s later life of toil in the factories” (Koenig & Waters, 2002, p. 250).

During the Enlightenment, Smith posited his notion of capitalism, which promoted a just society, in which upward mobility was possible and individuals would work hard to achieve all of their goals by focusing on their own self-interest. Through a division of labor, workers could specialize and market their services based upon the needs of the market and their own individual skills. Without interference from the government, which had been previously been commonplace, employers, serving as impartial spectators, could look out for the best interests of their workers, instead of having to deliver profits to the monarchs. According to Michael Gonin (2014), “many management theories are legitimized through a conception of economics whose roots are often attributed to Adam Smith” (p. 222).

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