The Wealth of Nations to the Industrial Revolution

—from labor value to cheap labor—
Adam Smith

An Inquiry into the Nature and Causes of The Wealth of Nations

1776
By 1750, England has the strongest, most productive market economy in the world.

By 1750 almost everyone depends on exchange to live from day to day. People produce for the market, and they depend on market exchange (buying and selling) to get what they need.

It is a competitive market. Workers compete for work. Producers compete to produce for less cost.

Capitalist production — a capitalist economy — was already well established in England, before Smith and before the Industrial Revolution.
An Inquiry into the Nature and Causes of The Wealth of Nations

[our first questions:  What is wealth? And where does wealth come from?]

The annual labour of every nation is the fund which supplies it with all the necessaries and conveniencies of life which it annually consumes, and which consist always either in the immediate produce of its labour, or in what is purchased with that produce from other nations.
The annual **labour** of every nation is the **fund** (source) which **supplies** it with all the **necessaries and conveniences** of life which (the nation) **annually consumes**, and which consist always either in the immediate produce of its labour, or in what is purchased with that produce from other nations.

Labor (work) creates the things we need and use (= goods / commodities).

The things we need and use are wealth. We consume wealth. We consume what labor creates.
our next question:

Why are some nations wealthier than others?

1) the skill, dexterity, and judgement with which labor is applied (in other words, how things are produced; the techniques of making things)

2) the proportion of those people who do useful work (who make useful things — commodities) and those who do not produce useful things.

Which is more important?
how something is produced (the skill, dexterity and judgement)

the way of making something; the 'techniques' of producing
Among the savage nations of hunters and fishers everyone who is able to work is employed in useful labour.

BUT...

Such nations are so poor that they must sometimes destroy or abandon their infants and old people and the sick leaving them to perish of hunger or be devoured by wild beasts.
by contrast...

Among civilized and thriving nations, although a great number of people do not labour at all . . .

yet the produce of the whole labor of the society is so great that all are often abundantly supplied,

and the working man if he is frugal [if he doesn’t waste] and industrious [hard working], may enjoy more necessities and conveniencies of life than any savage...
Smith has given us a choice: which do we want for ourselves?

this… or this…
The moral lesson of progress:

> savages struggle to survive

> in an 'improved' civilization, many people do no work at all, but almost everyone has more goods than savages.
So far, Smith has given us:

— a theory of wealth-creation

— the reason why the labor of some nations produces more wealth than others (better techniques of labor)

— and a story of productivity, a story of progress, from the savage nations to 'improved' civilizations

>> mytho-history

All of this in only 1½ pages.
Our next question for Smith:

What’s important about the way things are made (the skill, dexterity, and judgement)?

_The greatest improvements in the productive powers of labour ... seem to have been the effects of the division of labour._

—Chapter 1, first sentence
pins
Smith identifies 18 separate tasks for making pins.

a pin-making workshop of Smith’s time
1 worker (all tasks) → 20 - 50 pins per day

10 workers doing one or two tasks each → 48,000 pins per day

48,000 pins ÷ 10 workers → 4,800 pins per worker per day

How is this possible?
the difference between a philosopher and a common street porter seems to arise not so much from nature as from habit, custom, and education.
The man whose whole life is spent in performing a few simple operations, of which the effects are perhaps always the same, . . . generally becomes as stupid and ignorant as it is possible for a human creature to become.
The complex division of labor divides us, but it also binds us together. Even the simplest things are the work of many thousands.

*The woollen coat, which covers the day-labourer, as coarse and rough as it may appear, is a product of the labour of a great multitude of people.*
The division of labor... is the necessary, though very slow and gradual, consequence of a propensity in human nature: the propensity to truck, barter, and exchange.

—Chapter 2

* * *

nature $\rightarrow$ exchange $\rightarrow$ division of labor $\rightarrow$ progress
(more goods / more wealth)

$\therefore$ progress is natural (and morally good)
Equal quantities of labour, at all times and places, may be said to be of equal value to the labourer. . . . he must always lay down the same portion of his ease, his liberty, and his happiness. The price which he pays must always be the same . . .

Labour alone, therefore, never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price; money is their nominal price only.

-Chapter V
Labor Theory of Value

= one hour of labor
   (one hour of your life)

= three hours

Leci n’est pas une heure.
Textile production: the old way

Work is done by skilled craftsmen, at their homes or workshops, according to their own hours, with their own tools. The merchant buys the goods by the piece, by the amount.
en-gine > “jenny”. This produces 40 times more product than a skilled spinner in one day. Cost = 2 weeks of wages for the 40 humans it replaces. It ‘pays for itself’ in 2 weeks.
an early powered loom, about 1780
power looms, 1860

1813 — 2,400 power looms
1820 — 14,500
1829 — 55,000
1850 — 250,000
the new way: the factory

early textile factory — Manchester, England  1820
- expensive machines combined with cheap labor in a single place -
The new way: the factory

- Workers do not own the tools for producing.

- Workers must go to the factory (where the machines are kept safe). Machines and wage workers are combined in one place.

- Workers work for fixed hours. They do not control how they work or how fast they work. They must work according to the speed and the 'needs’ of the machine.

- They work for a wage (by clock time, not by amount of product or quality of the product)
child labor -- about 14% of the factories workers are children. Children adapt better to factory conditions (long hours, repetitive work, noise, isolation from others)
The new factory towns: workers’ housing
England: Cotton Production

<table>
<thead>
<tr>
<th>Year</th>
<th>Wool: 18 million kilos</th>
<th>Cotton: ½ million kilos</th>
</tr>
</thead>
<tbody>
<tr>
<td>1700</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1760</td>
<td>Cotton: 1 million kilos</td>
<td></td>
</tr>
<tr>
<td>1787</td>
<td>(spinning jenny) Cotton: 10 million kilos</td>
<td></td>
</tr>
<tr>
<td>1840</td>
<td>(mechanization) Cotton: 166 million kilos</td>
<td></td>
</tr>
</tbody>
</table>

Price results:

<table>
<thead>
<tr>
<th>Year</th>
<th>1 kilo of spun cotton yarn costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1784</td>
<td>21 shillings</td>
</tr>
<tr>
<td>1830</td>
<td>less than 2 shillings</td>
</tr>
</tbody>
</table>

The English worker of this period can buy more clothes with his wage and pay less for them. His real wage (measured in goods) is twice as much as the wage-worker in France.
coal-burning furnaces for producing iron -- Coalbrookdale, England 1801
Coal and calories in Britain

1800. 11 million tons of coal
1830. 22 million tons
1838 44 million tons
1870. 100 million tons

100 million tons of coal ≈
800 million million (800,000,000,000,000) calories ≈
the work of 40 million slaves
≈ all the food and energy requirements of ancient Uruk for 5,000 years.

(Landes)
The End