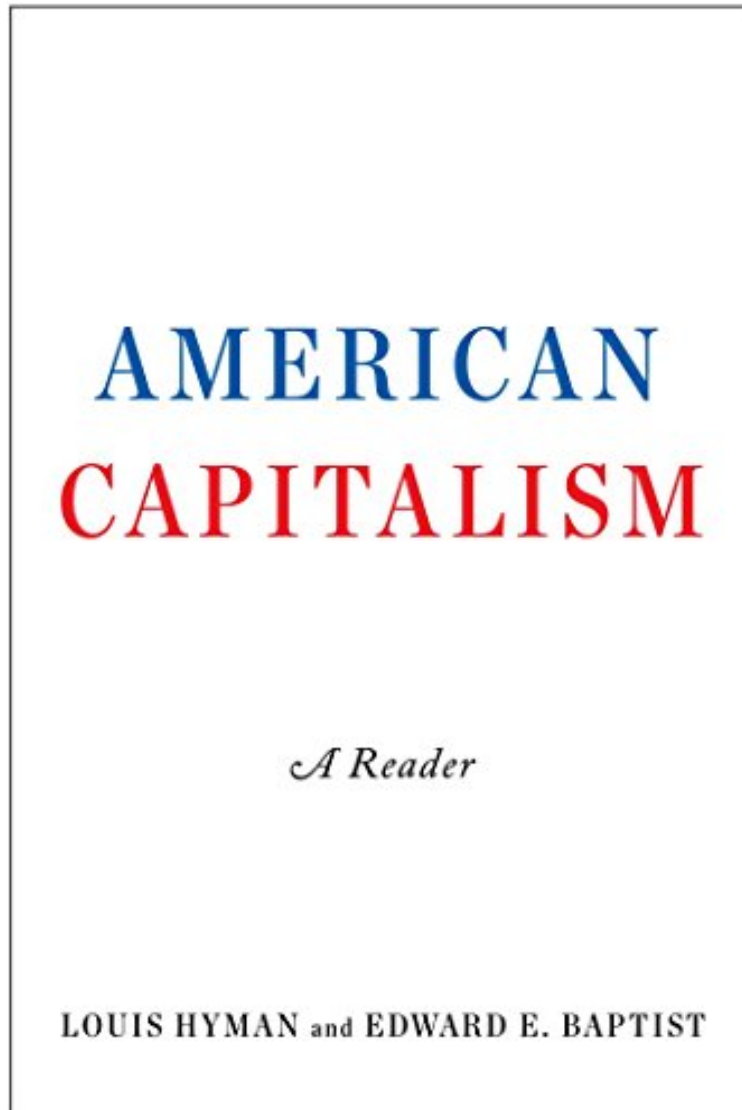


(Mobile book) American Capitalism: A Reader

American Capitalism: A Reader

Louis Hyman, Edward E. Baptist
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Excerpt. copy; Reprinted by permission. All rights reserved. American Capitalism The Wealth of Nations (1776)
ADAM SMITH The Wealth of Nations is the origin of Western economic thought. Every thinker since Smith has been forced to engage with his foundational ideas about division of labor, productive investment, and trade. In Smith we see the roots of both Marxism and mainstream economics. Smith's belief in manufacturing broke with Continental ideas which held that value could only come from cultivating land. Instead, he distinguishes laborers who add value to a commodity from other laborers, like "menial servants," who do not. Another major insight is that productivity can be increased by either hiring more workers or providing workers with better machines. Both choices require more capital to be invested, but the possibilities for increasing the productivity of manufacturing are much greater than those for agriculture. In this way, Smith sees the future of wealth in nations that manufacture, not in ones that simply grow crops. BOOK I: Of the Causes of Improvement in the Productive Powers of Labour, and of the Order According to which its produce is Naturally Distributed Among the Different Ranks of the People CHAPTER I: Of the Division of Labour The greatest improvements in the productive powers of labour, and the greater part of the skill, dexterity, and judgment, with which it is anywhere directed, or applied, seem to have been the effects of the division of labour. The effects of the division of labour, in the general business of society, will be more easily understood, by considering in what manner it operates in some particular manufactures. It is commonly supposed to be carried furthest in some very trifling ones; not perhaps that it really is carried further in them than in others of more importance: but in those trifling manufactures which are destined to supply the small wants of but a small number of people, the whole number of workmen must necessarily be small; and those employed in every different branch of the work can often be collected into the same workhouse, and placed at once under the view of the spectator. In those great manufactures, on the contrary, which are destined to supply the great wants of the great body of the people, every different branch of the work employs so great a number of workmen, that it is impossible to collect them all into the same workhouse. We can seldom see more, at one time, than those employed in one single branch. Though in such manufactures, therefore, the work may really be divided into a much greater number of parts, than in those of a more trifling nature, the division is not near so obvious, and has accordingly been much less observed. To take an example, therefore, from a very trifling manufacture, but one in which the division of labour has been very often taken notice of, the trade of a pin-maker: a workman not educated to this business (which the division of labour has rendered a distinct trade), nor acquainted with the use of the machinery employed in it (to the invention of which the same division of labour has probably given occasion), could scarce, perhaps, with his utmost industry, make one pin in a day, and certainly could not make twenty. But in the way in which this business is now carried on, not only the whole work is a peculiar trade, but it is divided into a number of branches, of which the greater part are likewise peculiar trades. One man draws out the wire; another straightens it; a third cuts it; a fourth points it; a fifth grinds it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on is a peculiar business; to whiten the pins is another; it is even a trade by itself to put them into the paper; and the important business of making a pin is, in this manner, divided into about eighteen distinct operations, which, in some manufactories, are all performed by distinct hands, though in others the same man will sometimes perform two or three of them. I have seen a small manufactory of this kind, where ten men only were employed, and where some of them consequently performed two or three distinct operations. But though they were very poor, and therefore but indifferently accommodated with the necessary machinery, they could, when they exerted themselves, make among them about twelve pounds of pins in a day. There are in a pound upwards of four thousand pins of a middling size. Those ten persons, therefore, could make among them upwards of forty-eight thousand pins in a day. Each person, therefore, making a tenth part of forty-eight thousand pins, might be considered as making four thousand eight hundred pins in a day. But if they had all wrought separately and independently, and without any of them having been educated to this peculiar business, they certainly could not each of them have made twenty, perhaps not one pin in a day; that is, certainly, not the two hundred and

productive; the latter, unproductive labour. Thus the labour of a manufacturer adds, generally, to the value of the materials which he works upon, that of his own maintenance, and of his master's profit. The labour of a menial servant, on the contrary, adds to the value of nothing. We are more industrious than our forefathers; because in the present times the funds destined for the maintenance of industry are much greater in proportion to those which are likely to be employed in the maintenance of idleness than they were two or three centuries ago. Our ancestors were idle for want of a sufficient encouragement to industry. It is better, says the proverb, to play for nothing than to work for nothing. The annual produce of the land and labour of any nation can be increased in its value by no other means but by increasing either the number of its productive labourers, or the productive powers of those labourers who had before been employed. The number of its productive labourers, it is evident, can never be much increased, but in consequence of an increase of capital, or of the funds destined for maintaining them. The productive powers of the same number of labourers cannot be increased, but in consequence either of some addition and improvement to those machines and instruments which facilitate and abridge labour; or of a more proper division and distribution of employment. In either case an additional capital is almost always required. It is by means of an additional capital only that the undertaker of any work can either provide his workmen with better machinery or make a more proper distribution of employment among them.

Questions 1. Why is division of labor possible? 2. What distinguishes a productive use of capital from an unproductive use of capital? 3. Why can manufacturing expand more, in Smith's mind, than agriculture? 4. Do you think you would enjoy pin making more or less if you were a pinmaker using division of labor? Would you enjoy your overall existence more or less? 5. Smith points to trade as one of the key differences between humans and animals. How does he make his argument? 6. Smith's account is largely about individual producers exchanging goods. Why do you think that his vision of the economy does not include firms? How might this story change with larger businesses? 7. Does Smith believe that talent is innate or learned? What does this mean for division of labor? What does this mean about the justice of inequality? 8. Selfishness is not usually thought of as a virtue, yet for Smith it results in virtuous outcomes. Does this imply that selfishness is not in fact unvirtuous? 9. How does Smith justify the existence of peasants in a wealthy country?