

Lesson 1

Student Handout 1.3—Excerpts from: An Inquiry into the Nature and Causes of the Wealth of Nations, by Adam Smith: On the Wages of Labor

Adam Smith (1723-1790), a Scottish philosopher and economist, is widely credited with originating the key principles of capitalism. Published in 1776, *An Inquiry into the Nature and Causes of the Wealth of Nations* is Smith's treatise outlining those principles. In it, he argues that the combination of individual property, self-interest, and competition would regulate the economy with minimal government intervention—"as if by an invisible hand." In the excerpt below, consider: What is Smith's argument? What capitalist economic principle is he describing?

Book I, Chapter 8. *Of the Wages of Labor:* THE produce of labor constitutes the natural recompense or wages of labor. ...

... A man must always live by his work, and his wages must at least be sufficient to maintain him. They must even upon most occasions be somewhat more; otherwise it would be impossible for him to bring up a family, and the race of such workmen could not last beyond the first generation. ...

When the landlord, annuitant, or monied man, has a greater revenue than what he judges sufficient to maintain his own family, he employs either the whole or a part of the surplus in maintaining one or more menial servants. Increase this surplus, and he will naturally increase the number of those servants. When an independent workman, such as a weaver or shoemaker, has got more stock than what is sufficient to purchase the materials of his own work, and to maintain himself till he can dispose of it, he naturally employs one or more journeymen with the surplus, in order to make a profit by their work. Increase this surplus, and he will naturally increase the number of his journeymen. The demand for those who live by wages, therefore, necessarily increases with the increase of the revenue and stock of every country, and cannot possibly increase without it. The increase of revenue and stock is the increase of national wealth. ...

Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage or as an inconvenience to the society? The answer seems at first sight abundantly plain. Servants, laborers, and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an inconvenience to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labor as to be themselves tolerably well fed, clothed, and lodged.

The liberal reward of labor, as it encourages the propagation, so it increases the industry of the common people. The wages of labor are the encouragement of industry, which, like every other human quality, improves in proportion to the encouragement it receives. A plentiful subsistence increases the bodily strength of the laborer, and the comfortable hope of bettering his condition,

and of ending his days perhaps in ease and plenty, animates him to exert that strength to the utmost. Where wages are high, accordingly, we shall always find the workmen more active, diligent, and expeditious than where they are low.

Source: *Modern History Sourcebook*, Internet History Sourcebook Project, ed. Paul Halsall, <http://www.fordham.edu/halsall/mod/adamsmith-summary.html>