

How to Read *The Wealth of Nations* (or Why the Division of Labor Is More Important Than Competition in Adam Smith)

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Abstract

This article challenges the idea that competition was central to Adam Smith's thinking by scrutinizing the concept's role in Smith's work, particularly *The Wealth of Nations*. We will understand Smith's perspective better if we avoid reading later developments of the concept, particularly in economics, back into Smith's times and writings. Conversely, I argue that the division of labor is the governing idea providing the basic organizational structure of *Wealth of Nations*. Clarifying (and demoting) the role of competition in Smith's thinking requires showing the centrality of the idea of the division of labor—the idea doing the major analytic work in his thinking. The argument contributes to recent reassessments of the scope and significance of Smith's social theory and strengthens the view that his approach has more in common with historical and political sociology than with economics as currently configured.

Keywords

Adam Smith, competition, division of labor, *Wealth of Nations*, social theory

Adam Smith is often treated as the origin of our modern concept of competition (e.g., Bradley 2010; McNulty 1967; Richardson 1975; Stigler 1957). But this is an inaccurate representation of both Smith's concerns and the history of the idea. This article scrutinizes the concept of competition as it occurs in Smith's ([1776] 1981) work, especially *The Wealth of Nations* (*WN* hereafter). The concept is certainly present and plays a role, but we will understand Smith's perspective and the nature of the concept we inherited better if we avoid reading later developments, particularly in economics, back into Smith's times and writings.

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On the other hand, the concept of the “division of labor” is often reduced to the famous example of the pin factory presented in the opening pages of *WN*, with little appreciation of how fundamental this idea was for the whole argument of the book, more fundamental than the idea of competition. Many studies show that the division of labor concept extends well beyond factories and production for Smith (e.g., Hill 2007; Meek and Skinner 1973; Rosenberg 1965). However, I argue that the notion of the division of labor goes deeper still, as a governing idea providing the basic organizational structure of *WN*. Durkheim’s ([1893] 1964) sociological conception is in many ways anticipated in Smith. Part of clarifying (and demoting) the role of competition in Smith’s thinking requires showing the centrality of the idea of the division of labor—the idea that is doing the major analytic work in his thinking.

This examination of Smith arises out of a larger project aiming to reconstruct the development of our current conceptions of competition and how it has become ideologically and institutionally central to the workings of modern liberal societies. Principles of competition underlie not just market economics but democratic politics, adversarial legal systems, and contests over ideas and beliefs, from science, to religion, to public opinion. Competition is central to our lives today, and we need to understand it better. Examining Smith is not a matter of unearthing conceptual antiquities but rather part of an attempt to better understand the genealogy of our present ideological and institutional conditions.

THE DEEP STRUCTURE OF *WN*’S ARGUMENT

In his congratulatory letter to Smith in April 1776 regarding the publication of *WN*, Hume remarked that “the Reading of it necessarily requires so much Attention, and the Public is disposed to give so little, that I shall still doubt for some time of its at first being very popular” (quoted in Ross 1998:4). Hume was right; popularity was slow at first, but it did come. However, this long and sometimes digressive work has rarely received the attention it requires. Readers and disciplines tend to mine the parts of particular interest to them, but they rarely contemplate the larger design of the work and deep structure of its argument. I offer an interpretation of the structure of *WN*, which for the moment takes its key concepts at face value, focusing instead on questions of form. To frame the discussion, the topics of the five books that comprise *WN* are as follows: Book I, an exposition of the social evolution of production via the concept of the division of labor; Book II, an analysis of the nature of capital; Book III, a history of European economic development; Book IV, a critical review of dominant theories of political economy; and Book V, an examination of the role of the state.

The five books as a whole are structured around an underlying narrative of three interrelated social problems. First is the problem of fragile productivity and recurring famine, which was a chronic problem in England throughout the seventeenth century but seemed to be abating amid remarkable growth in trade. The early books seek to explain the basic dynamics of wealth creation. Book III is especially concerned with how Europe, particularly England, managed to stimulate agricultural production through the growth of urban-based trade and commerce, which generated technological innovation and improvement of agricultural practices. Second is the problem of the British Empire and its relationship to its North American colonies. From start to finish, *WN* shows a keen interest in the economic development and political trajectory of the American colonies as a comparative counterpoint to these processes in Europe. Toward the end, Smith makes clear that although he thinks the colonists owe their fair share for the costs of the recent war with France (c. 1755–1764), he sympathizes with their grievances over the monopoly of colonial trade by the British government and mercantile interests. Third, in Book V, it becomes clear that Smith is deeply concerned about the crippling effects of public debt (most recently run up by the war with

France). His attention to rational and efficient forms of taxation (not their elimination) is bound up with this worry about the national debt and how to address it. He sees a dangerous dynamic between merchant and manufacturing wealth in search of opportunities and the sovereign's appetite for funds to support war and vanity projects, which led Britain and Europe to a precarious position.

I will look at this sequence in more detail in a moment. Here I want to emphasize the more formal point, that the text as a whole works through a sequence: (1) how a recent problem of agricultural underproduction was solved, (2) how to deal with current strife over the economy of empire, and (3) the proper attitude, namely, concern and disapproval, toward the serious and likely worsening problem of national public debts. The text contains an underlying anxiety about having escaped the trap of underproduction and periodic famine, only to be confronted by another trap of chronic trade-induced war and looming permanent government debt. Between these hangs the immediate crisis of festering discontent in the colonies. For contemporary readers, these were the big themes of the book, not competition.

Within this arc of problems, logical relations between the five books further tie them together. Book IV offers Smith's critiques of the mercantilist and French physiocratic theories of wealth creation, and the preceding books prepare those critiques.¹ Book I provides his historically and empirically based theory of how labor (not supplies of precious metals or monopolies of trades) is the basis of value and wealth creation and the ultimate determining factor in all prices. The more labor is divided, multiplied, and mobilized, the more wealth there will be. Book II augments this with an argument about the importance of allowing stock (capital) to circulate and be invested as widely as possible and the value of paper money and an extensive banking system in enabling this. Together, these books provide the counterargument, in advance, to the mercantilist theories critiqued in the first part of Book IV.

Book III begins by acknowledging that in wider human history, there has probably been a "natural" progression from the growth of agriculture, to manufacture, and finally to international commerce. The American colonies are interesting to Smith as an experimental replay of this natural sequence. But the core argument is that Europe, due to the impact of the Roman Empire and then its displacement by the Germanic chiefly societies that evolved into feudalism, took a different, "retrograde," and "unnatural" historical path (Hont 2005). Feudal land ownership tended to stifle the growth of agriculture, but the preservation and growth of manufacturing and commercial activity in towns provided a new engine for economic growth. This disproved the premise that manufacture and commerce have an ultimately dependent relationship to land and agricultural wealth, a favorite idea of the French economists that Smith critiques in the latter part of Book IV. Books I, II, and III thus set up the critiques of then dominant theories that are delivered in Book IV. Finally, as I will elaborate, the theme of the division of labor is central to development of the arguments in Books I, II, and III. Properly understood, Book V returns to this theme but at a higher level of analysis, looking at the division of labor within the state, between the state and the military, and between the sovereign and the major classes (i.e., landlords, merchants, and workers). Thus, the last book about the state, far from being an addendum to an argument about a relatively autonomous economy that creates wealth, is a completion of *WN*'s overarching analysis of the division of labor and its relationship to wealth creation.

THE ROLE OF COMPETITION IN *WN*

There is a problematic conventional wisdom today about the centrality of competition for Smith's thinking. This view reflects the appropriation of Smith as an apical ancestor by the discipline of economics as it took shape across the nineteenth century. In an influential

article, the economist and specialist on competition George J. Stigler (1957) rightly argued that the modern, highly mathematized concept of “perfect competition” was foreign to Smith. The idea of perfect competition operates as an abstract ideal, a limit case, in which a theoretical market is composed of a multitude of relatively equal actors with equal or at least similar relevant knowledge, allowing prices to be determined by pure competition in the most level playing field possible. Such abstractions were anathema to Smith’s way of thinking. Nonetheless, the idea has developed subsequently in economics as a tool of analysis, and many economists tend to blur the line between the analytic device and the real world of markets. Stigler appreciated that this was not part of Smith’s project, but he leaves the impression that the concept of market competition was Smith’s defining innovation and contribution, even though it was more rudimentary and matter of fact than later notions of perfect competition. Economic competition and the basic conditions necessary for it are presented as the centerpiece of Smith’s project.

McNulty (1967) responded to Stigler’s claims by arguing, correctly, that the concept of market competition was not original with Smith but relatively conventional in his day. McNulty notes clear antecedents of the concept in the writings of Cantillon, Turgot, Hume, and especially Stuart’s ([1767] 1966) *The Principles of Political Oeconomy* (see Skinner 1981), one of the most successful British texts on the topic prior to *WN*. For McNulty, what really distinguishes Smith’s conception of competition from later notions of perfect competition is that Smith identifies “behavioral activity” among rivals in the marketplace, whereas the latter focuses on “market structure,” a condition rather than a behavior. Nonetheless, McNulty ascribes to Smith “the systematization of earlier thinking on the subject, and, more importantly, the elevation of competition to the level of a general organizing principle of economic society” (p. 396). But this too is an overstatement. Smith may have systematized earlier thinking, but I argue that competition, while playing a role, is not the most important organizing principle in Smith’s theory.

It is striking that in the early reception of *WN*, as indicated by letters from friends, reviews, and commentaries, little emphasis was placed on competition. In Smith’s day, it appears competition was not considered a remarkable aspect of the work. None of the letters from friends and luminaries of the Scottish Enlightenment sent to Smith in April 1776 on the publication of *WN* suggests this was a new treatise on the virtues of competition. In his congratulatory letter mentioned earlier, the ailing Hume briefly contests a few points of analysis and fact and remarks approvingly on the recent publication of the first volume of Gibbon’s *The Decline and Fall of the Roman Empire*, implying that it and *WN* are works of similar importance. Hugh Blair applauds Smith’s critique of mercantilism but says nothing about competition per se, instead warning him that his remarks on policy toward the American colonies may date quickly and appear faddish. William Robertson suggests that *WN* “must necessarily become a Political or Commercial Code to all Europe” (quoted in Ross 1998:10), and Adam Ferguson politely takes issue with Smith’s denial of the viability militias as a way of defending “civilized nations.” In a letter that month to Hume, Smith’s former student John Millar says of Smith: “In particular his great leading opinion, concerning the unbounded freedom of trade, I have but a vague notion how far it is true, or how far he means to say it ought to be carried” (quoted in Ross 1998:14). This is about as close as we come to a discussion of competition. Millar questions the pros and cons of regulating trade but shows no sign of apprehending a grand overarching argument about the benefits of competition.

The reviews of Smith’s day tended to laudatory summaries with little critical bite (Teichgraeber 1987). Fuller discussion of Smith’s ideas appeared in extended letters to Smith that were published as pamphlets or parts of pamphlets. The most notable of these was from the MP Thomas Pownall ([1776] 1987), formerly governor of the Massachusetts Bay Colony,

who shared Smith's conciliatory attitude toward the American colonies. Pownall believed, however, that the British monopoly of North American trade was politically necessary and economically advantageous and Smith's aspirations to a more cosmopolitan principle of free trade unrealistic. Other writers took issue with Smith in regard to key ideas in *WN*—the merits of the Corn Laws, the adequacy of Smith's labor theory of value—but discussion of "competition" as such is conspicuously absent (see Ross 1998). It is implausible that all these exceptionally well-informed readers should have failed to notice the book's central message. Scholars who would make competition the central concept of *WN* thus have to explain why contemporaries took so little notice of this fact. Furthermore, they must claim that Smith did not understand what he had wrought and only the insight of later economists was sufficient to discern what he was really arguing.

Let us turn to the actual treatment of competition in *WN*. Smith never defines competition but simply uses it as though its meaning will be readily understood. By my count, the words *competition* and *competitor(s)* occur 129 times in a two-volume work of 947 pages (excluding footnotes, appendices, textual schedules, and indexes). Frequently when he uses the word, he talks of how commodities or capitals "come into competition" with each other. Smith could not have used the verb *to compete* as an action or the adjective *competitive* because these words did not yet exist. He was lexically limited to discussing *competitors* and relations of *competition*, although in phrases such as the following quote, he suggests the idea of "competitive" goods. The limited elaboration of the word form suggests its less developed meaning at the time Smith was writing.² His first use of *competition* is characteristic, talking about agricultural and manufactured goods in European trade: "But though the poor country [Poland], notwithstanding the inferiority of its cultivation, can, in some measure, rival the rich in the cheapness and goodness of its corn, it can pretend to no such competition in its manufactures" (Smith [1776] 1981:17; I.i.5).³ Polish manufactures, unimproved by more complex divisions of labor, are neither good enough nor cheap enough to rival those of England and France.

The concept is elaborated somewhat in Chapter VII of Book I, "Of the natural and market Price of Commodities," where Smith makes the now familiar point that prices are normally determined by two kinds of competition—between sellers to make a sale and between buyers to make a purchase—and the sum of these forces tends to fix the price of commodities according to supply and demand. Although he does not indicate any borrowing, this idea was already well established. Steuart ([1767] 1966) labeled it "double competition," for obvious reasons, in his *Political Oeconomy*. This expression was used in an article on "Commerce" in the Dublin edition of the *Encyclopaedia Britannica* (1790–1798), which suggests it was fairly conventional.

The word *competition* appears with more frequency and appears to be undergoing some elaboration in two other sections of *WN*. The term appears 16 times in the section on "Inequalities occasioned by the Policy of Europe" (Smith [1776] 1981:135–59; I.x.c). Here, Smith's familiar critique of government policies that support corporations' (e.g., guilds, burghs) exclusive privileges and place restraints on the employment of labor and stock is most clearly laid out. Such restraints clearly limit competition. But Smith also objects to policies that promote excessive competition, particularly by subsidizing training and employment in ecclesiastical professions. It is a classic argument against facilitating through public funding an over-supply of those highly educated for professions. Here at least, competition is a problematic effect of policy, although Smith ([1776] 1981:151) concludes by acknowledging that "the cheapness of literary education is surely an advantage which greatly over-balances this trifling inconveniency." The section concludes with a more general argument in favor of the free circulation of labor and capital, understood as interdependent

processes. The emphasis is less on competition per se and more on the benefits of maximizing efficient allocation.

The term also appears 19 times in the section in Book V titled “Of the Publick Works and Institutions which are necessary for facilitating particular Branches of Commerce” (Smith [1776] 1981:731–58; V.i.e). Having just previously argued that there are legitimate public expenses in supporting institutions that serve the general needs of commerce (e.g., roads, canals), here he questions the legitimacy of government support, mostly in the form of monopoly trading privileges bestowed on particular branches of trade and “regulated companies” (e.g., the East India Companies). *Competition* occurs five times on page 748, but in an account of the East India Company’s unwarranted complaints about the ill effects of too much competition on its interests. The discussion is about the prevention of competition from functioning, not the merits of competition.

I draw the following lesson from these two sections of *WN* where competition frequently comes up. Smith’s attention is trained not on some hypothetical form of economy he wants to advocate, in which competition could be highly developed, but is more practically focused on what he sees as the abuse of power and deranging of natural processes by powerful state and market actors. By way of contrast, these arguments seem to imply some conception of an ideally competitive economy, but Smith ([1776] 1981:471; IV.ii.43) does not waste time speculating on such:

To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain, is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the publick, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it.

Smith’s characteristic political realism shines through in this passage. Given the human raw materials of power and self-interest, he looks for modest ways to reduce their ill effects, not some utopia of perfect or even pervasive competition.

Further supporting this line of argument, one encounters the idea of a “spirit of monopoly” (Smith [1776] 1981:734, 737–38) interfering with the best working of the economy, but there is no corresponding counter-concept of a “spirit of competition.” Addressing the establishment in 1750 of a trading company specifically charged with the additional responsibility to maintain trading forts along the African coast, Smith ([1776] 1981:737–38; V.i.e.12) says this act

seems to have had two distinct objects in view; first, to restrain effectually the oppressive and monopolizing spirit which is natural to the directors of a regulated company; and secondly, to force them, as much as possible, to give an attention, which is not natural to them, towards the maintenance of forts and garrisons.

Here and elsewhere, it is clear Smith sees a basic animating force in human corporate behavior that tends toward monopolism. This impedes free competition, but competition lacks the same animus. No strong human impulse to compete is being stifled in Smith’s account. Rather, competition is a general type of relationship that will be realized under certain conditions. Smith does acknowledge the force of “emulation,” the desire to outdo others in the same field of practice (e.g., the professions of law, medicine, and scholarship), and that the condition of competition can be a stimulus to emulation (Smith [1776] 1981:759–60, 780; V.i.f.4, 45). However, the impulse in emulation is toward gaining recognition as someone who excels at a practice, which is distinct from competition itself.

The key point is that these various uses hardly add up to a systematic theory of competition. The concept is primarily used in the limited, specific context of market behavior, usually in terms of the dynamics of buyers and sellers determining prices, “capitals” in search of opportunities for profitable investment, and impediments imposed by merchants and others with an interest in monopoly. These are fairly commonsense observations, in which the term simply describes a basic mechanism of the market. Smith nowhere refers to a *system of competition*. Having said this, at several points, Smith makes clear his view that a general condition of competition among market actors is indicative of the good functioning of the market and the best check on monopolistic abuse. I am not denying that he holds and promotes this view. Perhaps the fullest statement of this view comes at the end of Book I, where he has been describing the three “great orders” that make up society in his day: those who live by rent, those who live by wages, and those who live by profit (Smith [1776] 1981:264–67; I.xi.p). Focusing on the last of these, he says:

The interest of the dealers, however, in any particular branch of trade or manufactures, is always in some respects different from, and even opposite to, that of the publick. To widen the market and narrow the competition, is always the interest of the dealers. To widen the market may be frequently agreeable enough to the interests of the publick; but to narrow the competition must always be against it, and can serve only to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens. The proposal of any new law or regulation of commerce which comes from this order, ought always be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. (Smith [1776] 1981:267; I.xi.p.10)

This general position statement is registered within a specific critique of the big business class, not as part of a general statement about the nature of economics. If competition were that central to *WN*, it would likely get some sort of exposition at the beginning of the text and some sort of recapitulation at the end, but this is not the case. Moreover, the concept of competition is not directly connected to either questions of human nature or the question of the overarching trajectory of human history, two central themes of eighteenth-century philosophy and especially Scottish enlightenment thought. As I will show, it is quite otherwise with the concept of the division of labor.

Having said that *WN* contains no systematic theory of competition, the word *system* does often attach to another concept—“perfect” or “natural liberty”—that operates in loose conjunction with competition in ways that suggest some sort of larger system. The word *system* in Smith often has pejorative connotations of a “system of ideas” (e.g., mercantilism, physiocracy) that vainly seeks to impose order on an intractable reality. So there may be a degree of irony in the phrase “system of natural liberty” (Smith [1776] 1981:687; IV.ix.51) in that it also suggests the absence of centrally imposed order. This term was in philosophical and wider circulation in Smith’s day and took on an array of meanings. However, we know that Smith associated this term with a formulation he regarded as distinctively his own (Hamoway 1968:252–53 and footnote 4). In Smith’s hands, it indicates a situation in which constraints on individual action are as minimal as possible and people can exercise individual choice, according to their interests, as much as possible. It is counter-posed to the idea of artificial constraints, of laws, rules, and regulations that compel people to act in ways other than how they would absent those constraints. Smith’s ([1776] 1981:898; V.ii.k.64) sympathetic remarks about the plight of smugglers, who are reacting reasonably to dynamics of supply

and demand but are artificially constrained by arbitrary taxes and threats of punishment, is a case in point.

But this does not mean there are no “natural” constraints on liberty (Muller 1993). *The Theory of Moral Sentiments* (Smith [1789] 1984, hereafter *TMS*) shows how we are naturally constrained by our desire for approval and desire to avoid disapproval from our fellows. Nor does it mean there are no artificial enhancements to our liberty. Strong effective justice and the rule of law are necessary to reinforce our natural inclinations toward sociable behavior and discourage antisocial behavior. Most people living in highly productive and technologically advanced societies with elaborated systems of government have more options to choose from than individuals in more “primitive,” and thus supposedly more “free,” forms of society.

Natural liberty and competition are reciprocal. Where there is more natural liberty, we can expect more competition and vice versa. But competition does not create liberty, nor does natural liberty in itself depend on competition. It is a mutually reinforcing conjunction, not a matter of one being the basis of the other. The idea of a system of natural liberty is an antecedent of Hayek’s (2013) notion of “spontaneous order” and Surowiecki’s (2004) more recent and popular “wisdom of crowds.” For Smith as well, there is a strong belief that “the system of natural liberty,” in conjunction with competition and markets, will make use of situated knowledge.⁴ He believed that most people better understand their own practices, situations, and endeavors than more distant others and are better placed to make decisions about these than anybody else. Relatively unfettered markets provide one of the best means for aggregating and refining human knowledge about our wants and needs. From our present vantage point, we can perhaps see more clearly than Smith how markets also aggregate and exaggerate errors, for instance in speculations on profits and provisioning of consumer debt. My main point here, however, is that if Smith’s masterpiece is a clarion call for anything, it is for this highly generalized and socialized conception of human knowledge, realized through natural liberty, not for competition as such.

THE ROLE OF THE DIVISION OF LABOR IN *WN*

It remains to make the case for viewing the division of labor as the central and governing concept of *WN*. I did not realize this until I read the whole book closely and have myself erroneously suggested that the concept in Smith is narrowly concerned with economic production (Hearn 2012:220). Yet even before examining the text itself, there are indications of the centrality of the concept for Smith and *WN*. First, by far the most extensive contemporary critical response to *WN* was the letter to Smith from Governor Pownall ([1776] 1987:337–76). Primarily concerned with questioning aspects of Smith’s free trade arguments in regard to the British Empire’s interests, Pownall’s letter, after polite introductions, nonetheless begins at the beginning, questioning Smith’s proposed foundations for the division of labor. Whereas Smith locates this in a fundamental impulse toward exchange and agreement among humans, Pownall argues that innate differences in personal endowment are the initial springs of the division of labor and the need to exchange. He clearly grasps that the book’s argument rests on this starting point.

Second, Smith ordered most of his papers destroyed before his death, and it is striking that the few fragments of writing drafts preceding *WN* that survived almost all concern the division of labor (see appendixes in Smith 1978). In particular, the “Early Draft of the Wealth of Nations” (ED), which appears to date from the early 1760s, runs through much of the same material and examples that find their way into Chapters I and II of Book I of *WN*. The two other short documents, found among Smith’s letters and dated to around the same time,

are known as the first and second “Fragment on the Division of Labour” (FA and FB, respectively). These correspond more closely to Chapter III, Book I, which is concerned with the relationship between the scale of the division of labor and the extent of the market and some of the geographic conditions conducive to that extension. We can only speculate that the survival of these documents indicates the special importance of the division of labor for Smith, but it seems unlikely this is entirely an accident. (On these three documents and their historical relationship to *WN*, see Meek and Skinner 1973.)

Basic aspects of the text itself and what we know about Smith’s views on rhetoric and argumentation also support the idea of the centrality of the division of labor. In contrast to competition, the division of labor is presented as the central theme of *WN* right from the start. Without yet introducing the term, the “Introduction and Plan of the Work” presents the core thesis before sketching what the books will cover. It begins: “The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life” (Smith [1776] 1981:10; I.1), asserting that the refinement of labor skills, not the sheer number or social proportion of laborers, accounts for the productivity of modern societies. Immediately following the Plan, Chapter I of Book I, titled “Of the Division of Labour,” restates this same thesis. Smith could hardly be more up front about his aims and the basis of his arguments.

We also know that Smith had strong ideas about the effective presentation of arguments, and these seem to be in evidence in *WN*. Smith chose to preserve after his death a youthful essay on “The Principles which Lead and Direct Philosophical Enquiries; Illustrated by the History of Astronomy,” which he thought had some merit. Inspired like many of his generation by the explanatory power of Newton’s theory of gravity to make sense of the hitherto poorly understood movements of the heavens, he claims in the essay that “[p]hilosophy is the science of the connecting principles of nature” (Smith 1986:31). He views the role of the philosopher (thus himself) as one of “representing the invisible chains which bind together all these disjointed objects” (Smith 1986:31), thereby restoring peace to the mind disturbed by chaotic experience. Correspondingly, in his early private “Lectures on Rhetoric and Belles Lettres” (given in 1748), he claims that the most effective way to render highly complex subject matters accessible is in the style of Newton, by giving one’s audience “a pleasure to see the phaenomena which we reckoned the most unaccountable all deducted from some principle (commonly a wellknown [*sic*] one) and all united in one chain, far superior to what we feel from the unconnected method where everything is accounted for by itself without any reference to the others” (Smith 1985:146).⁵ With the division of labor in *WN*, Smith is practicing what he preaches in these early, programmatic statements.

Let me now show how the idea of the division of labor unfolds across *WN* before zeroing in on the fundamental question for Smith of why there is a division of labor in the first place. As I said, the main exposition of the idea is in Chapters I and II of Book I, and Smith ([1776] 1981:14; I.i.2) tells us that “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.” In other words, the pin factory. After presenting this example, Smith elaborates the basic effects of this division in three areas: increasing dexterity in specific tasks, saving time moving between tasks, and stimulus to the invention of specialized labor-saving machines. He notes that this trend toward specialization extends well beyond material production, even to the work of “philosophers” (Smith [1776] 1981:21–22; I.i.9), used in a broad sense to include scientists and inventors. In Smith’s view, these aspects of the division accounted for the much higher levels of material production and wealth and its diffusion in western European societies compared to others. Chapter II grapples with the root causes of the division of labor, so I leave that to the end of this discussion. Chapter III

develops the argument “That the Division of Labour is limited by the Extent of the Market.” The division and the market grow in a necessarily correlated way and are facilitated by circumstances such as “advantages of water-carriage” (Smith [1776] 1981:34–35; I.iii.4–6), for instance, extensive navigable river systems. In this way, the early development of larger social systems in Egypt and around the Mediterranean is explained. Already it is clear that the division of labor applies well beyond specific sites of production and mere connections of market exchange: It is at the root of social complexity, what Smith would call “civilization.”

Chapters V and VI especially develop Smith’s labor theory of value, which Marx recognized as a signal contribution of Smith’s work (Avineri 1968). Without going into debates about the adequacy of the theory itself (see Meek 1973), we can nonetheless appreciate its fundamental significance for the wider argument about the development of the division of labor. Because labor is the ultimate source of value (wealth) for Smith, the expansion of the division of labor means the expansion of wealth.

The following chapters elaborate the effect of the division of labor on the development of laboring wage-earning populations, the diversification of capitals, and land values and rent. The concluding passage of Book I concerning the three great orders of society, referred to earlier, thus can be reasonably interpreted as a summing up of the effects of the evolving division of labor on the European societies of his day. This is the passage where he poses the fundamental class structure:

The whole annual produce of the land and labour of every country, or what comes to the same thing, the whole price of that annual produce, naturally divides itself, it has already been observed, into three parts; the rent of land, the wages of labour, and the profits of stock; and constitutes a revenue to three different orders of people; to those who live by rent, those who live by wages, and to those who live by profit. These are the three great, original and constituent orders of every civilized society, from whose revenue that of every other order is ultimately derived. (Smith [1776] 1981:265; I.xi.p.7)

The rest of the passage adds up to a trenchant warning: the landed rentier class typically has limited practical experience in the world and tends toward naivety in political matters, the working class is normally so preoccupied with basic survival and self-betterment that it has little scope to develop a wider understanding of society, and the merchants and manufacturers, who live by profit, have the widest worldly experience and knowledge and political leverage, and are most able to steer government policy toward the satisfaction of their own narrow interests. This is the division of labor in its boldest outlines at the national scale.

Like the account of the pin factory, the beginning of Chapter I, Book III starts with a simple example of a wider principle. Smith describes a hypothetical commercial and manufacturing town and its exchange relationships with its agricultural environs. This provides the foundation for what will become an extended historical analysis of rural-urban relations and their peculiar trajectory in the European case, where Smith claims that urban commerce became an atypical stimulus to agricultural development, a reversal of the normal order of priority. He signals at the start that this is a further development of the division of labor argument: “The town, in which there neither is nor can be any reproduction of substances, may very properly be said to gain its whole wealth and subsistence from the country” (Smith [1776] 1981:376; III.i.1). This is a concession to the theories of the physiocrats, which he immediately qualifies:

We must not, however, upon this account, imagine that the gain of the town is the loss of the country. The gains of both are mutual and reciprocal, and the division of labour is in this, as in all other cases, advantageous to all the different persons employed in the various occupations into which it is subdivided. (Smith [1776] 1981:376; III.i.1)

In other words, the interdependent rural-urban economic dynamic and the three-part class structure are both permutations of the division of labor.

In his critique of the mercantilist theory in Book IV, Smith again mobilizes the image of the division of labor, arguing that it applies as much to the benefits of specialization and trade between countries as between households based on different occupations:

It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. . . . What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. (Smith [1776] 1981:456–57; IV.ii.11, 12)

This is an early statement of the thesis of comparative advantage. Smith's critique of the monopoly control of colonial trade was that it stunted the natural economic growth of international production and trade that would result if all capitals and labor were free to seek out their best opportunities (Smith [1776] 1981:607–609; IV.vii.c.47–51). There is a debate to be had about whether international trade is always to mutual benefit or, as Friedrich List ([1841] 2005) complained, whether the more advanced core capitalist economies are able to exploit other countries and lock them into lower levels of economic development. Smith was somewhat inured to the advantage of Britain's position in the world economy of his day. My point, however, is that we have now moved, via the division of labor image, from pin factory, to class structure, to urban-rural economic dynamics, to international trade relations.

Smith's argument reaches a further level of analysis in Book V in his discussion of the military's role in modern commercial societies. One of Smith's basic aims here is to argue that civilized, which is to say commercial, countries require a professional, specialized standing army (and navy) to meet their defense needs. This is a further development of the complex division of labor. Adam Ferguson ([1767] 1966) had worried that if popular militias decayed as an institution, so would general martial spirit as a spring to social solidarity and counterweight to the fragmenting effects of the division of labor. Smith claimed that while some "barbarous" countries with widespread martial social organization could sometimes conquer ill-equipped "civilized" ones, only a specialized military could meet the needs of civilized societies. These societies cannot turn back to the past but must accept the full directional implications of the expanding division of labor. This argument is part of the broad historical shift in which militaries became (usually) subordinate parts of the modern state, as opposed to constituencies of landed elites or freelance soldiers for hire. The state itself increasingly reflects the principle of the division of labor as it modernizes, and Smith ([1776] 1981:697; V.i.a.14) fully recognized this point:

The art of war, however, as it is certainly the noblest of all arts, so in the progress of improvement it necessarily becomes one of the most complicated among them. The state of the mechanical, as well as some other arts, with which it is necessarily connected, determines the degree of perfection to which it is capable of being carried at any particular time. But in order to carry it to this degree of perfection, it is necessary

that it should become the sole or principle occupation of a particular class of citizens, and the division of labour is as necessary for the improvement of this, as of every other art. Into other arts the division of labour is naturally introduced by the prudence of individuals, who find that they promote their private interest better by confining themselves to a particular trade, than by exercising a great number. But it is the wisdom of the state only which can render the trade of a soldier a particular trade separate and distinct from all others.

So here is a peculiar turn for Smith, who so often prefers the insight, knowledge, and motivation of the private individual, invoking the necessary “wisdom of the state.” And it turns out this principle has more general applicability to the state. Smith also shared contemporary ideas about the advantages of the separation of power within the state (Hamilton, Madison, and Jay [1787–1788] 2008; Montesquieu [1748] 1989), and he considered the fair and effective administration of justice a crucial foundation for a stable commercial society. Considering the evolution of judicial institutions in the Roman system and the medieval European monarchies, he suggests that the sheer scale of the task of administering justice necessitated its separation from executive power:

When the judicial is united to the executive power, it is scarce possible that justice should not frequently be sacrificed to, what is vulgarly called, politics. The persons entrusted with the great interests of the state may, even without any corrupt views, sometimes imagine it necessary to sacrifice to those interests the rights of a private man. But upon the impartial administration of justice depends the liberty of every individual, the sense which he has of his own security. In order to make every individual feel himself perfectly secure in the possession of every right which belongs to him, it is not only necessary that the judicial should be separated from the executive power, but that it should be rendered as much as possible independent of that power. (Smith [1776] 1981:722–23; V.i.b.25)

When we remember that natural liberty depends on the firm administration of justice, we see the importance for Smith of this ultimate expression of the division of labor in structures of the state. We begin to see that the division of labor, far from being simply a feature of the economy, is a society-wide principle that is necessarily manifested in the diversification of the state, differentiating military, judicial, and executive functions. His suggestions for institutionalizing basic public education for the young indicate he envisioned further extensions of the division of labor by way of state agency (Smith [1776] 1981:784–88; V.i.f.52–61).

As has often been noted (e.g., Evensky 2016), Smith’s views on education reflected his awareness and concern about the degrading effects of the division of labor on those condemned to constant, repetitive work. Other scholarship has posited contradictory views within Smith on the division of labor (Rosenberg 1965; West 1964). People have puzzled over how he could hold such a positive view of the division of labor in Book I, extolling its role in expanding production and spreading wealth (Smith [1776] 1981:13–36: I.iii), while also critiquing its mentally stultifying effect on laborers in Book V (Smith [1776] 1981:781–88; V.i.f.50–61). The simple answer is that Smith was a complex thinker—he saw that the very process he identified as essential to human nature and economic growth also had negative effects, especially on certain classes. It is easier to see this when we accept that Smith did not envision a strict firewall between state and economy: He saw this as an area where justice and humanity gave reason to intervene in the effect of the division of labor, to ameliorate the conditions of the working poor (Muller 1993).

Finally, there is a strong implication in the last chapter, “Of Publick Debts,” that another aspect of the modern division of labor, besides the mental limitations placed on the working class, has become extremely problematic. This is the relationship between the wealthy business class and the state, which he saw as encouraging a dangerous trend to public indebtedness: “A country abounding with merchants and manufacturers, therefore, necessarily abounds with a set of people who have it at all times within their power to advance, if they chuse to do so, a very large sum of money to government” (Smith [1776] 1981:910; V.iii.6).

Smith clearly sees Great Britain falling into a debt trap that had snared many other European states before it, driven by an unwholesome dependency between monied lenders and a profligate state. *WN* concludes with Smith speculating about innovative strategies of taxation and trade liberalization for raising revenue to pay down public debt and the possible need to abandon the costly and ungovernable project of empire “and endeavour to accommodate her future views and designs to the real mediocrity of her circumstances” (Smith [1776] 1981:947; V.iii.92).

Now let me return to the question of the origins of the division of labor, discussed in Book I, Chapter II. Smith famously located its roots in “a certain propensity in human nature . . . to truck, barter, and exchange one thing for another” (Smith [1776] 1981:25; I.ii.1). In Smith’s day, these three terms were closely associated with each other and had the same connections with trade and commerce that they have today. Smith, however, framed these common ideas in a larger philosophical context. First, he places great emphasis on the fact that the capacity to “exchange one thing for another” is distinctively human and separates us from other animals. He notes that other animals cooperate, as when hounds chase down a hare, but this is “not the effect of any contract, but of the accidental concurrence of their passions” (Smith [1776] 1981:25–26; I.ii.2). The use of *contract* here indicates that trucking, bartering, and exchanging have a wider implication of reaching agreement. This is also signaled by the fact that in following paragraphs he adds the word *treaty* and refers to meeting human needs “by treaty, by barter, and by purchase” (Smith [1776] 1981:27; I.ii.3). The emphasis is not narrowly on trade but more broadly on meeting mutual needs.

Smith says that although humans, when helpless, sometimes fawn and beg like animals, this is insufficient for members of a large and complex society: “In civilized society he stands at all times in need of the cooperation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons” (Smith [1776] 1981:26; I.ii.2). This is what distinguishes us from other animals. The different abilities of different breeds of dogs do not lead to some larger cooperative framework, but in humans, varied abilities, which Smith is clear are primarily due to different upbringings, not inherent differences, do result in the complex division of labor. Today, Smith is often viewed as treating self-interest as the ultimate basis of social action in these passages. It is important to appreciate that when he says that in reaching agreements to exchange we appeal to the self-love of others, the emphasis is not on self-interest but on the need to take the interests of others into account. Smith does not suggest that self-interest is in itself a sufficient explanation for exchanging behavior.

The second point is that our capacity to reach agreements clearly depends on language, a widely recognized distinguishing feature of humans. We have in *WN* an indication that Smith believed this was important. After introducing our exchanging behavior, he says: “Whether this propensity be one of those original principles in human nature, of which no further account can be given; or whether, as seems more probable, it be the necessary consequence of the faculties of reason and speech, it belongs not to our present subject to inquire” (Smith [1776] 1981:25; I.ii.2).

WN grew out of parts of Smith's Glasgow lectures on jurisprudence in the 1760s. We know he had originally planned a further volume on the theory of jurisprudence (i.e., law, government, right) as stated in the Advertisement added to the sixth edition of *TMS* (Smith [1789] 1984). It seems likely he decided to defer a fuller discussion of the fundamental role of "faculties of reasons and speech" to that volume, which never arrived. Further clues supporting this interpretation appear in the two sets of students' notes on Smith's jurisprudence lectures, in the parts of his lectures that clearly anticipate the *WN* sections on the division of labor. The more detailed and probably accurate set of student notes on these lectures, known as LJ (A), offers the following:

If we should enquire into the principle in the human mind on which this disposition of trucking is founded, it is clearly the naturall inclination everyone has to persuade. The offering of a shilling, which to us appears to have so plain and simple a meaning, is in reality offering an argument to persuade one to do so and so as it is for his interest . . . and in this manner one is practising oratory on others thro the whole of his life. (Smith 1978:352; vi.57).

Here it becomes clearer that Smith sees exchange, and thus the division of labor, as rooted in language and reason. He suggests we are, by our nature, always made uneasy by disagreement and looking to reach a consensus—a classic sociological insight. This is the primary impulse behind the propensity to truck, barter, and exchange.

In this interpretation, I concur with Kalyvas and Katznelson (2008), who argue that there is a parallel between Smith's analysis of sympathy and moral sentiments and of exchange and the division labor in that both have a search for mutual recognition at their core (cf. Danner 1976). The idea of an "Adam Smith Problem"—that there is a contradiction between *TMS*'s emphasis on sympathy as a basic human dynamic and *WN*'s emphasis on self-interested bargaining—is now widely doubted in the literature on Smith (Haakonssen and Winch 2006; Kennedy 2016). This is partly because, as I suggested, it is a basic misunderstanding to take Smith as saying that the division of labor and capitalism are founded on mere self-interest. What he actually says is that when we, as humans, exchange, we do so not by simply pursuing our own interests but by appealing to the self-interest of others. This is a fundamentally social-interactionist conception: The need for exchange forces us to consider the needs and views of others (unlike, e.g., plunder). This formulation is not the same as but is compatible with the idea that we are constitutionally susceptible to the feelings of others—made for sympathy.

On the other hand, *TMS* also talks about the limits of sympathy, its tendency to fade as a social force as one moves outward from the self and immediate communities of propinquity to more distant social relationships, both spatially and sociologically (Hearn 2016). According to Smith, humans have difficulty sympathizing with others geographically remote from their own experiences, and people have a bias toward sympathizing with the fortunate and not with the unfortunate. In this connection, the argument about the division of labor can be seen as demonstrating how locally negotiated but extensively interdigitating networks of exchange can compensate for the limits of sympathy, building structures of interdependence and mutual provision, despite our inability to sympathize equally with all our fellow human beings.

As I have shown, unlike the concept of competition, the idea of the division of labor is systematically developed in *WN*. It is the first idea presented in the book, the topic of its first chapter. Smith follows his own strictures on effective writing, starting with a compact, simple illustrative example, the pin factory, and then elaborating and expanding on the concept, showing how it explains larger dimensions of society, including class structure, relations of

rural agriculture to urban manufacture, and commerce, international trade, and structures of the state. This continuity is indicated by repeated use of the term *division of labor* in these various contexts. Finally, Smith grounds the division of labor in humankind's defining feature—language. It is this concept, not competition, that Smith uses to address the questions of social change and evolution that were so central to his intellectual milieu (Berry 1997). This concept underpins Smith's conjectural history of universal movement from hunting and gathering, through pastoralism and agriculture, to commercial and industrial society.

To conclude this section, let me place Smith's idea of the division of labor into his contemporary context, considering what was original and distinctive about his use of the concept. Versions of the idea of the division of labor, if not the exact term, can be found as far back as Plato's *Republic* (Evers 1980) and in Ibn Khaldun's writings (Mouhammed 2007). Hosseini (1998) shows that a version of the idea was current in medieval Persia, and the famous example of the pin factory may originate in the example of a needle factory used in Persian texts. Although terminology varied, the idea, especially when applied to manufactures, was in wide currency in the late seventeenth and eighteenth centuries (Smith [1776] 1981:13; I.i.1, see editor's footnote 1; see also Hill 2007). To situate Smith's treatment, it is useful to compare it to those of Bernard Mandeville, Jean-Jacques Rousseau, and Adam Ferguson.

We know that Smith was familiar with and often responding to Mandeville ([1714, 1729] 1988), whose argument that public good was served by allowing the free play of private vice, in the sense of self-interested pursuits, disturbed the Scottish tradition of looking for the roots of moral order in human sociability. For Mandeville, the division of labor arose out of the long-term trial and error of individuals pursuing their own interests (Horne 1978). Interestingly, he too saw the growth of government, with its checks and balances and bureaucratization, as an expression of the unintentionally beneficial division of labor principle (Horne 1978). But Mandeville's primary concern was to defend commercial society and deflate its critics among the moralists of his day by showing the superfluity of their calls to virtue, not to build a theory of history.

For Rousseau, the division of labor was tied up with his critique of modern inequality and social artifice in his *Second Discourse* (Rousseau [1755] 1997), which Smith reviewed in the *Edinburgh Review* in July 1755 (see West 1971). Rousseau's conception of human nature was one of minimal sociability, in which humans are at their best when independent from one another. He treats the emergence of agriculture and metallurgy as the beginning of a slide into a degraded state:

[T]he moment one man needed the help of another; as soon as it was found to be useful for one to have provisions for two, equality disappeared, property appeared, work became necessary, and the vast forests changed into smiling Fields that had to be watered with the sweat of men, and where slavery and misery were soon to sprout and grow together with the harvests. (Rousseau [1755] 1997:167)

Here the division of labor is at the root of alienation. This is directly at odds with Smith's view that the division of labor leads to prosperity and is a natural outgrowth of our sociable natures.

Although not as strident as Rousseau, and seemingly resigned to the general direction of human history, Ferguson also saw a downside in what he called the "separation of the arts and professions." He connected the growth of civilization, commerce, and social subordination to the increase in specialization in *An Essay on the History of Civil Society* (Ferguson [1767] 1966). Ferguson attributed social change to an inherent restlessness in human nature, an inclination never quite to be satisfied. While he recognized the material benefits, he saw the expanding division of labor as weakening bonds of social solidarity and undermining the

cultivation of virtue, especially in its more martial forms. This was the basis of his disagreement with Smith about the need for modern professional militaries, which he saw as a threat to the necessary fostering of public virtue through citizen militias. Ferguson was closer to recent forms of neo-stoicism (Allan 2000) that worried about the preservation of public virtue in the face of wider social and political corruption in commercial society. He was also a kind of early “conflict theorist” (cf. Coser 1956), for whom the steady threat of warfare was a needed stimulus to social bonds.

Smith contrasts sharply with Rousseau and Ferguson in seeing a much more positive role for the division of labor, grounding it in, rather than opposing it to, human nature. In some ways, his arguments resemble Mandeville’s, but rather than a paradoxical outcome, in which human egoism yields social benefits, Smith saw a basic development of our social capacities for language and reason at work. Moreover, while premodern versions of the division of labor generally justified a static social order in which everyone had a designated place, versions of this idea in Smith’s day were grappling with it as a disruptive process. But it was Smith, even more than Mandeville and Ferguson, who saw the fuller potential of the concept, not just as a justification of social order but as an explanation of social change.

This discussion points to the relationship between Smith’s and Durkheim’s versions of the division of labor, alluded to at the outset. What they share is a macro sociological understanding of a pervasive and dynamic social structure. There are two significant differences, however. First, unlike Durkheim ([1893] 1964), Smith does not attribute the formation of individualism to the increasing division of labor. Second, where Durkheim looks for new, quasi-religious bases of social solidarity to counteract the anomic effects of the division of labor, for Smith, the division is a source of social and systemic integration that helps compensate for the limited scope of human sympathy, the true basis of moral order.

SITUATING SMITH

I now pull back, situating Smith in relation to the formation of academic disciplines, as a way into placing Smith’s ideas in the political context of his day. What was Smith’s general approach to the study of society, and how does this bear on the overall project of *WN*? Smith was Professor of Moral Philosophy at the University of Glasgow (c. 1752–1764), similar to what we might call human sciences today. It is anachronistic to redefine him in terms of academic disciplines that developed after his life, but we can identify the main similarities and differences between his approach to research and writing and various disciplines we find today.

Hume’s invocation of Gibbon’s *Decline and Fall* in association with *WN*, mentioned earlier, is telling. *WN* is a work of historical analysis that attempts to offer critical reconstructions of contemporary interpretations of history and draw lessons for then current issues on British national policy. Its interpretation of the impact of the Roman Empire and its decline on later European developments is central to its argument, further strengthening the general relevance of Gibbon. But the point here is not that Smith was a historian rather than an economist. It is that his combined concerns with human nature, moral order, the practices of science and rhetoric, comparison, history, economy, politics, and government make him more like a very broad historical sociologist, if we are going to impose anachronistic labels on him.

Samuels (1973) came closer to the mark when he characterized Smith as demonstrating a kind of realist political analysis in which the interplay of powers, especially among merchant classes, monarchs, and their governments and advisors, provides the most basic frame of analysis (see also Hont 2015). As Samuels (1973:135) rightly asserts: “The analysis of market resource allocation must be supplemented by the analysis of mutual coercion; indeed the

former must be understood in terms of the latter if we are to begin to comprehend the economic system as Smith understood it.” I would add that the wider context for Smith’s attention to problems of power was a sense that traditional forms of authority—religious, aristocratic, monarchical—were weakening in his day and needed to be supplemented by more diffuse forms of motivating and guiding action. Smith saw the dominant powers of his day as not just active elements in the economy but often misguided and dysfunctional ones (Hearn 2016).

I offer a speculation to further locate Smith in his own intellectual milieu and subsequent disciplinary formations. In Smith’s time, it was becoming standard to refer to the study of “political economy,” a term borrowed from the French (Backhouse 2002:117), as in Steuart’s ([1767] 1966) *An Inquiry into the Principles of Political Oeconomy* (see Skinner 1981). By the early nineteenth century, this term was conventionally being used to define the developing discipline we now recognize as economics, and it was prominent in the titles of major texts by figures such as David Ricardo (1817), J. R. McCulloch (1843), and John Stuart Mill (1848). Yet as this convention was becoming established, Smith avoided the term, preferring instead *An Inquiry into the Nature and Causes of the Wealth of Nations*. I think this signals a conscious distancing on Smith’s part from a way of thinking associated with that term.

In Smith’s day and before, “political oeconomy” had specific connotations of advice to sovereigns from those with economic experience and insight, often based on their mercantile activities (e.g., Child 1694; Mun 1669; North [1691] 1846). Central to Smith’s argument, however, was the idea that merchants were often self-interested and meretricious advisors and sovereigns were often poor managers of wealth, being easily driven by vanity and the exigencies of international competition. It is thus not surprising that Smith would not want to associate himself with the term. It is clear that in keeping with the conventions of his day, Smith associated the word *oeconomy* with the management of a unit (household, government); in *WN*, it appears more frequently in Book V, Chapter I, “Of the Expenses of the Sovereign or Commonwealth.” The term suggested not an encompassing system but the management of wealth by such units. In *WN*, the term *political oeconomy* primarily labels the theories of the British mercantilists and the French *œconomists* (or *physiocrats*), both roundly critiqued in Book IV.

By the early nineteenth century, political economists were increasingly not so much merchants themselves but gentleman scholars, with an aim of developing a science that would shape public, parliamentary, and business opinion. Established in 1821, the Political Economy Club met monthly to discuss economic questions (Backhouse 2002). Across the nineteenth century, identification of general laws increasingly became the objective, and political economy began to transform into the academic discipline of economics. The meanings of words drift, and the fact that Smith may have abjured the label *political economist* in his day does not in itself invalidate positioning him in that later nineteenth-century lineage. Today, having been marginalized by economics proper, the term has a new set of associations more aligned with fields such as international relations and is perhaps now closer to being an appropriate label for Smith’s original project than it was in his day. The key point, however, is that Smith fits uncomfortably within both the original sense of political economy and the later tradition of highly abstracted macroeconomics, which try to claim him as one of their own (for a different view, see Asproumouros 2011).

What was the political significance of Smith’s work in his own day? I argue that although important, competition is not as central to Smith’s overall explanation of the “origins and nature of the wealth of nations” as is often claimed. However, if the role of competition in the specific sense of market competition is often overestimated, strangely, the importance for Smith of competition in the much more general sense of the word—of rivalry in any

sphere, but especially politics and international relations—is under-recognized. A major exception to this is Hont (2005, 2015), whose extensive studies of Smith often focus precisely on his concern with the key problem of destructive international relations in his day, driven by mercantile ideology and its claims on reasons of state. For example, the quasi-mercantilist Steuart ([1767] 1966:202–217) explicitly linked “competition” to necessary economic rivalry between nations, a view Smith was trying to counter. Correspondingly, the struggle within nations among merchants, manufacturers, and monarchs to advance their interests, often against the interests of the rest of society, could be seen as competition gone awry. Although Smith used the word *competition* narrowly to designate rivalry within the marketplace, in this wider frame, Smith’s project can be construed as a critique of competition. He proposes an alternative view in which competition serves a purpose but is channeled into the more peaceful project of provisioning humanity. That provisioning is achieved not by competition itself but by extension of the division of labor (and thus also the market), which brings with it interdependence and implies reaching agreements.

For Smith, the other wellspring of human betterment was “natural liberty,” which could best cultivate a widely dispersed practical wisdom. The key problem was the distortion of natural liberty by the machinations of the powerful, who used law and policy to artificially channel revenues into their own coffers and foment war. But Smith has no clear conception of a “self-regulating market” (Polanyi 1957) as an object of study. Rather, this notion can be inferred by combining Smith’s ideas of natural liberty, competition, the division of labor, and how these all contribute to economic growth. Smith provided the dots. They were connected in a more dogmatic way by others later.

Smith’s ideas would eventually provide foundations for “free trade” ideology in Britain in the nineteenth and early twentieth centuries (Polanyi 1957; Trentmann 2008). But as observed earlier, the contemporary response to Smith’s *WN* was often skepticism about how far one could extend principles of free trade and still protect national interests and an inability to entertain the anti-imperial and cosmopolitan implications of his argument. As the plural *nations* in the title indicates, his was an argument about how, by cultivating the division of labor within and between nations, all could prosper, interdependence would increase, and international enmity would be reduced. Smith was not starry-eyed, but he offered recommendations and stood against dominant strains of national policy in his day.

CONCLUSION

From the present standpoint, what is most striking is the diverging fates of the ideas of “competition” and the “division of labor” from Smith’s time, which I shall briefly sketch. In short, competition becomes more central to economic thought, while the division of labor moves to the margins, migrating into other developing social sciences, especially sociology. To take competition first, soon after Smith’s death in 1790, in the context of the first wave of industrialization (c. 1790–1830), growing problems of the displaced poor, and anxieties spread by the French Revolution and the Napoleonic Wars, Malthus’s argument that population pressure would steadily press the working poor toward bare subsistence found favor in some circles. Ricardo accepted this and added his further worry that industrialists and landowners were in a zero-sum struggle over wealth, which would accumulate, through rent, in the hands of the latter. In the “dismal science” of the early nineteenth century, competition was part of the explanation for why the poor increased and the landed class remained powerful (Backhouse 2002; Heilbroner 2000; Polanyi 1957). By midcentury, the Corn Laws that had protected the incomes of the great agricultural landowners were repealed, and Smith’s idea of free trade finally came into its own among economists and politicians. In this period, the

idea of competition as an improving market force became part of wider common sense, as Britain committed to importing grain and exporting manufactured goods. During this period, Smith was re-read as the antidote to the dismal effects of competition in Malthus and Ricardo and as a prophet of “good” competition. The entry on “competition” in the 1862 edition of *Chambers’s Encyclopaedia* captures the new spirit of the age:

Its most apt exemplification is a race, where all are going to the same point, and all strive to be first there, while though only one can achieve this objective, some others will have the satisfaction of being nearer to success than the competitors behind them. The most important practical use of the word C. is in the political economy of commerce, where it is the great motive-power of production and enterprise.

By the later nineteenth century, as the second wave of industrialization was developing, economics was taking a turn toward more mathematical modeling of economic processes, under the influence of figures such as Francis Edgeworth and Alfred Marshall (Heilbroner 2000). The economy was increasingly conceived as an aggregate of individual behaviors tending toward equilibrium, and mainstream economics was abandoning historical analysis (Hodgson 2001). The idea of “perfect competition” as a necessary modeling assumption crystallized during this time, long after Smith. In the twentieth century, in the wake of the Great Depression, competition was rethought again by the Ordoliberals of Freiburg and others as an operating condition that states needed to guarantee to ensure the effective workings of free markets (Cerny 2016). Hayek famously critiqued the dominant idea of perfect competition, arguing that rivalry among business firms with limited knowledge was the only means to develop knowledge about what works in the market (Backhouse 2002).

Despite changing contexts, the idea of competition has been a constant element in economic theory, returning in different roles, as a key to how a stable capitalist system works. In marked contrast, the modern division of labor concept was always more closely tied to what makes society change, as I argued is the case with Smith’s version.

The division of labor was an object in Marx’s critique of capitalism. Marx described tension between a “social division of labor,” that is, exchange relations between relatively autonomous producers, and the historical emergence of the “division of labor in manufacture” (production), in which the capitalist increasingly controls the labor process and displaces specialized labor with machines. (Of course, intensifying competition was also a part of this analysis.) Marx critiqued Smith for failing to see how the division of labor in the factory would recast the societal division of labor in its own exploitative and alienating image. Apologists for capitalism, Marx ([1887] 1967:356) observed, were loath to bring the distorted social division of labor under collective control, preferring “despotism” in the factory and “anarchy” in the wider, class-riven society.

Herbert Spencer assimilated the idea of the division of labor to that of differentiation, a master concept in his functionalist evolutionism. Curiously, despite his extreme laissez faire and social Darwinist views in regard to state policy, competition did not figure prominently in his actual evolutionary theory. Instead, he discerned universal laws of development and growth in both the organic and human social worlds, tending toward greater complexity, functional differentiation and specialization, and interdependence of constituent parts (Spencer 1971). Like Spencer, Durkheim also treated differentiation as a master process, but unlike Spencer, he saw it not as the aggregation of individuals and social units but a transformation of society as a whole. Durkheim’s ([1893] 1964) expansive concept of the “division of labor in society” proposed a shift between two great types of society, from simple, small-scale societies bound together by powerful norms to complex, large-scale societies

bound together by functional differentiation and interdependence and less so by shared norms. In contrast to Spencer, this shift makes individualism as we understand it possible, but it also renders these societies, and the emergent individual, susceptible to anomie as norms themselves differentiate and compete. Since Durkheim, the concept of the division of labor has continued its close association with critical assessments of social change, although often with emphasis on the more narrow meaning of work in production. Wallerstein's (1974) analysis of the global division of labor underpinning the world system continues to inform recent analyses of economic globalization,⁶ and the division of labor is central to numerous assessments of ethnic, racial, and gender stratification.

To sum up, while I argued that Smith's intellectual lineage has been misrepresented, his key idea has ended up where it belongs: in fields of research concerned with social change. Since Marx, this has included a recurring emphasis on the division of labor as a source of social problems as well as an engine of history.

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NOTES

1. Put simply, mercantilist theories tended to identify wealth with the accumulation of metal monies and advantageous trade positions, whereas the physiocrats saw agricultural productive capacity as the foundation of wealth creation.
2. My etymological research into the definition of *competition* as it appears in English dictionaries and encyclopedias from the late seventeenth century to the present reveals marked changes in the grammatical variants of the word and predominant applications and associations of the concept from Smith's time to the present. In the eighteenth century, *competition* generally meant "rivalry" or "contending for one and the same thing" and had not yet developed primary associations with economics (although *The Wealth of Nations* [*WN*] and similar works no doubt strengthened that association). Note that ideas of an abstract verb *to compete*, a disposition of *competitiveness*, and organized events called *competitions* all developed after Smith's day. According to the survey of dictionary definitions, these words or senses only emerged during the nineteenth century.
3. Throughout, for Adam Smith I give both a Harvard style citation and the conventional section and paragraph citation used in Smith scholarship.
4. The famous and overburdened image of the "invisible hand" (Samuels 2011) is germane here. It occurs only twice in Smith's writing, once in *The Theory of Moral Sentiments* and once in *WN* (Smith [1776] 1981:456; IV.ii.9). In context, it serves as a rhetorical flourish to convey the idea that a greater social (specifically national) good can result unintentionally from individuals' more narrow self-interested actions. It is not explicitly tied to an argument about competition. The real point is that the "visible hand" of the sovereign, or some other planner, is not always necessary.
5. Vincent-Lancrin (2003) also makes this point, although he does not take it as far as I do.
6. Indeed, Brenner (1977) critiqued this approach as "Neo-Smithian Marxism" because of a perceived prioritization of unequal exchange relations over class conflict as a motor of history.

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