

Adam Smith on Wages and Education: Some Policy Implications for India

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Abstract

This article outlines Adam Smith's views on wages and education and employs them in providing suggestions for contemporary politics and economic policy. In particular, the joint examination of his concept of 'subsistence wages' and his views on education offer a radically different interpretation of Smith to that found in the mainstream literature. Smith's qualified and nuanced view of wages and education suggests that the market, if left to itself, cannot generate fair wages nor provide inclusive education. Therefore, our contemporary politics and economic policy must incorporate them as central socioeconomic targets.

Keywords

Adam Smith, subsistence wages, education, India, wages policy

Introduction

One of the characteristics of a classic is its enduring relevance. Adam Smith's *Theory of Moral Sentiments* (Raphael & Macfie, 1976) (*TMS* hereafter) and *An Enquiry into the Nature and Causes of Wealth of Nations* (Campbell, Skinner, & Todd, 1976) (*WN* hereafter) are classics. According to Smith, the twin objectives of economics or political economy, as it was then called, are "to provide a plentiful revenue or subsistence for the people" and "to supply the state or commonwealth with a revenue sufficient for the publick services" (*WN*, p. 428). It is to be noted that this definition of economics differs from the dominant view of economics as a science of choice; in a way, Smith's definition treats economics as a science of wealth/income.¹

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Recently, Sen (2013) has written about the contemporary relevance of Adam Smith. Sen rightly underscores the role of *TMS* in contemporary discussions around equality and justice and highlights the importance of public education for Smith without further discussion (Sen, 2013, pp. 582, 585). While this article is in broad agreement with Sen's interpretation of Smith, its point of departure is the focus on wages and education.

After outlining some key aspects of Smith's conceptual universe, I highlight Smith's notion of subsistence wages and articulate its connections to the current discussions on minimum wages. Subsequently, by drawing on Thomas (2018), Smith's views on education are presented with a view to influence the current thinking around the provision of education in India. This discussion will also indicate that Smith's political economy is not encapsulated in any substantive sense in the dominant neoclassical (marginalist) economic thought. Furthermore, the findings of this article repudiate the view that intellectual progress in economics is linear and supports the view that good ideas will continue to be found in the history of economic thought.

Smith's Conceptual Universe

Since Smith's ideas have been anachronistically appropriated into neoclassical economics, we begin by highlighting Smith's fundamental categories of surplus and social classes, both of which are conceptually different from (and even opposite to) their counterparts in neoclassical economics.

The institutional setting in Smith is that of a "commercial society", an early version of capitalism where agriculture had begun to be replaced by manufacturing. Smith assumes "free competition" as a state characterized by the free mobility of labour and capital; this is different from the neoclassical perfect competition which requires the stringent assumptions of the presence of a large number of firms and that firms are price takers. Under conditions of free competition

[t]he whole of the advantages and disadvantages of the different employments of labour and stock must, in the same neighbourhood, be either perfectly equal or continually tending to equality. If in the same neighbourhood, there was any employment either evidently more or less advantageous than the rest, so many people would crowd into it in the one case, and so many would desert it in the other, that its advantages would soon return to the level of other employments. (*WN*, p. 116)

The fundamental unit of analysis in Smith is a social class, in the tradition of Richard Cantillon and François Quesnay. The three main social classes in Smith are the landowners, capitalists ("masters" or "employers" in Smith's parlance) and workers. Smith focuses on understanding the factors which determine functional income distribution—rents, profits and wages. Note that Smith's fundamental unit of analysis is in a sharp contrast to the utility-maximizing individual found in neoclassical economics.²

In Smith and other classical economists, the gross product is produced socially through the interaction of most sectors in the economy. Once the outputs necessary for replacement of the gross product are deducted, we arrive at the net product or social surplus which needs to be allocated to the different social classes. This allocation, in Smith, is a matter of politics and policy. In particular, the determination of wages is contingent on the ability of workers to come together and bargain for higher wages with the capitalists who have the power to keep the wages low (see Kurz, 2018, p. 333 where he discusses the role of power in Smith's political economy). Therefore, functional income distribution is a contested terrain. Indeed, the difference with the dominant marginal productivity theory of income distribution—a

harmonious account of income distribution—could not be sharper. And the determination of how much of wages and profits is to be allocated to the state is an explicit act of (tax) policy.

Smith on Wages

Before the publication of the *WN*, the notion that real wages are determined by social and historical factors was prevalent, especially in the political economy of Cantillon and Quesnay (Stirati, 1994). According to Smith, a society is “flourishing and happy” only when the workers are “tolerably well fed, clothed, and lodged” and not when they are “poor and miserable” (*WN*, p. 96).

What determines the floor of the wage or the minimum wage in Smith? It is both “necessaries and conveniences of life” (*WN*, pp. 85–86). Smith’s inclusion of the “conveniences of life” in the minimum wage is a conceptually important one with significant implications for both politics and policy. According to Smith, the real wage could be higher than the socio-historically determined customary subsistence wage (cf. Aspromourgos, 2010, p. 1175).

Smith recognizes the role of bargaining by the workers as an important determinant of real wages (Aspromourgos, 2010, p. 1173; Stirati, 1994, p. 51; *WN*, p. 85). Thus, there is a central role for history and institutions to determine real wages (see Aspromourgos, 2009, pp. 248–249). Smith is also open to the possibility of workers’ wages rising significantly above customary subsistence such that it enables them to engage in “conveniences” consumption—especially when the economy is growing. This rise in wages, for Smith, occurs through strengthening of workers’ bargaining power (Aspromourgos, 2010, p. 1179). Smith believes that competition generates innovation which causes productivity growth and subsequently perhaps higher real wages (Aspromourgos, 2009, p. 208). However, he acknowledges that “[t]he order of proprietors may, perhaps, gain more by the prosperity of the society, than that of labourers: but there is no order that suffers so cruelly from its decline” (*WN*, p. 266). While discussing taxation, he rightly argues that “it is the luxurious and not the necessary expence of the inferior ranks of people that ought ever to be taxed” (*WN*, p. 888).

Smith’s observation regarding the conflict in wage determination between “masters” and “workmen” is rendered explicitly below.

The workmen desire to get as much, the masters to give as little as possible. The former are disposed to combine in order to raise, the latter in order to lower the wages of labour. (*WN*, p. 83)

Therefore, in terms of politics, for Smith, workers *can* come together and collectively demand higher wages, given the economic (and also very often, political) power of the capitalists.³ Indeed, real wages do not move in line with productivity increases owing to the economic power of the capitalists (Aspromourgos, 2010). In terms of policy, such an association by workers should be legitimized by the state because the voice of the worker “is little heard ... in the public deliberations” (*WN*, p. 266). It must be highlighted that Smith was opposed to the informal combinations by employers (see also Winch, 2004, p. 18); he recognized that the capitalists “are always and every where in a sort of tacit, but constant and uniform combination, not to raise the wages of labour above their actual rate. ... Masters too sometimes enter into particular combinations to sink the wages of labour even below this rate” (*WN*, p. 84)

When the regulation, therefore, is in favour of the workmen, it is always just and equitable; but it is sometimes otherwise when in favour of the masters. (*WN*, pp. 157–158)

However, it must be acknowledged that Smith is against any *form* of combination—whether by capitalists or workers—which is visible in his endorsement of free competition. That Smith can favour (some) regulation and oppose “combinations” further attests to his ability to be nuanced in his political economy. On the issue of collective bargaining, we must part company with Smith because (a) his “commercial society” is a world *before* industrial capitalism in the fuller sense and the concentration of capital and (b) he was overtly optimistic about the benefits of productivity growth being shared with the workers, in the absence of collective action.

Through policy, the minimum wages in India should be revised in line with the evolution of customary subsistence, which is necessarily a *relative* notion, highly dependent on the nature of both historical and existing socioeconomic inequalities.⁴ This relative notion is predicated on our innate desire for social approval and fear of social disapproval (see Ranadive, 1977, p. 307). Hence, discussions on minimum wages, if we are to employ Smith’s reasoning, must necessarily incorporate the reality of historical and social inequalities. Finally, the poor in India, whose real wages only allow them to consume inferior necessities, must not be taxed; that is, indirect taxes, like the Goods and Services Tax (GST), are detrimental to the poor. Thus, Smith’s political economy offers us an alternative framework for rethinking and redesigning our current policy on minimum wages.

Smith on Education

Although a detailed account of Smith’s views on the philosophy and economics of education is provided in Thomas (2018), it does not offer policy suggestions. The key arguments in Thomas (2018) may be summarized as follows: (a) Smith conceived of education as the learning of moral sentiments *and* knowledge,⁵ (b) the harmful effects on cognition arising from division of labour can be offset by compulsory education,⁶ (c) education is necessary in situations where people elect their political representatives, (d) especially given (b), education should be accessible to all, and therefore (e) education ought to be publicly provided, with user charges on some occasions (also, see Sen, 2013, pp. 582, 585; Winch, 2004, p. 19).⁷

The state, Smith argued, must take the responsibility of providing institutions “for promoting the instruction of the people” (*WN*, p. 723). According to Smith, education should be affordable to all such that “even a common labourer may afford it” (*WN*, p. 785). In Smith’s own words, “education of the common people requires, perhaps, in a civilized and commercial society, the attention of the publick” (*WN*, p. 784). For Smith, education is not a commodity whose natural and market prices could be determined in the same way as corn or silk. Although Smith did not consider education a commodity, he did consider the levying of user charges for education. In fact, it would be more accurate to argue that Smith favoured the public provision of education because of its moral and social benefits.

Juxtaposing Smith’s views on wages and education allows us to connect the two because he argues that the cost of education must be affordable by the “common labourer”. This can happen if the cost of education adapts to the extant wages or the wages are such that education is affordable. Smith is in support of the former and does not discuss the latter route explicitly. But he is clear that no “invisible hand” will ensure the affordability of education to the common labourer.⁸ This is yet another instance of Smith’s incisive understanding of capitalism.

In the following excerpt, Smith identifies that education plays a crucial role in occupational/wage differentials. This strongly suggests that education aids in the upward mobility of workers.

The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature, as from habit, custom, and education. (*WN*, pp. 28–29)

Just as Smith's views on wages offers us a design for an alternate pathway, his views on education offer us compelling reasons for the public provision of education. In particular, while Smith recognizes that the uses of the market are many, given the existing socioeconomic inequalities, markets are unlikely to generate *fair* wages and ensure *inclusive* education.

Conclusion

This article began with an overview of Smith's vis-à-vis the marginalist/neoclassical conceptual universe which highlighted their fundamental differences. In a way, this incommensurability invalidates the dominant view of economics enshrined in most of our textbooks—that intellectual progress in economics is linear. By employing the conceptual category of subsistence wages found in Smith, it was argued that social comparisons, and therefore *relative* consumption and inequality should matter in wage bargaining politics and minimum wage policies. Indeed, social approval is a central motif in Smith's *Theory of Moral Sentiments*. As for education, Smith never treated it as a commodity which is bought and sold like corn in the market *prior* to favouring its public provision. In a way, both wage and education policies are intertwined, and Smith's observation that education should be affordable to the “common labourer” is a vindication of this. Lastly, Smith's books are truly classics because even 200 years after their publication, they are able to offer us valuable insights into the functioning of our society and also provide us with guides for action—in terms of both politics and policy.

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Notes

1. It must be noted that Smith used wealth and income interchangeably.
2. As Ranadive rightly argues, “the concept of autonomous ‘maximizing’ individuals with given resources, tastes, and technology” is not found in Smith (Ranadive, 1977, p. 299). Also, see Bharadwaj (1989).
3. Winch is correct in noting that while there is no theory of exploitation in Smith, there is a “theory of unequal bargaining power” (Winch, 2004, p. 25).

4. Wilkinson (2012) describes the process through which the rising customary consumption standards of British workers have been consolidated in their real wages primarily because of the collective bargaining undertaken by the trade unions.
5. More accurately, education imparted good moral sentiments (cf. Ranadive, 1977, pp. 306–307).
6. As Ranadive notes, since the scope for division of labour in agriculture is limited and the upper ranks do not derive their incomes from “working”, the ill-effects of division of labour mostly fell on the manufacturing workers (Ranadive, 1977, p. 317).
7. Smith preferred the system of user fees followed in Scottish universities to the endowment-based English universities because the latter, as he experienced, led to indolence (for a detailed commentary, see Thomas, 2018, pp. 110–111).
8. However, Smith did believe that, in “well-governed societies”, the increase in per capita output brought about by division of labour results in a “universal opulence which extends itself to the lowest ranks of the people” (*WN*, p. 22; for a thorough discussion see Asproumorgos, 2009, pp. 205–209).

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