

“Adam Smith and Globalization”

Cameron M. Weber

Brooklyn, NY

cameron_weber@hotmail.com

(202) 531-1281

July 2008

“As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be the extent of that power, or, in other words, by the extent of the market ”

– Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, New York: Modern Library Edition, [1776] 1994, page 19.

The quote above (and its meaning) is one of the most famous by Adam Smith, and therefore one of the most famous in economics. Adam Smith addresses the question of ‘what is economics?’, or ‘what is the market?’ in this quote. It is often said that all of economics is contained in Adam Smith, that everything that has been worked on since 1776 has been reiterations or reformulations of ideas already contained in the *Wealth of Nations*. To a certain extent this is true. The book contains theory and descriptive evidence around such things as economic behavior, the value of goods in society, the role of the economy in society, how productivity increases lead to economic growth and major societal changes and, the *Wealth of Nations* contains recommendations for public policy. This essay looks at Smith’s ideas in our modern context, the second great wave of globalization, and finds how relevant Smith is for today.

Adam Smith formulated a system which was a comprehensive theory of a free society, of a society of ‘perfect liberty’. Prior to the *Wealth of Nations* Smith wrote about the law and moral and social philosophy, and his final book, the

Wealth of Nations, was a summation of his thoughts on human potential and 'enlightenment'. This book was so engaging that we still refer to it today, whether consciously or unconsciously, in our daily lives as people living in societies or as social thinkers to understand the world around us.

Smith's economic concept was that productivity, and therefore income and wealth, was increased through the specialization of labor. The more that someone specializes in what they do the better they become at doing it. Production at larger scales is more efficient than production at smaller scales because it allows for the people in the production chain to get better and better at what they do. As production becomes larger in scale, people see their part in the production chain and then find, through introspective reasoning and through working with others, better ways to do their task. These better production methods then find their way into the production cycle and the wealth of the whole economy improves as a result.

However it is only when production is subjected to the market that these efficiency gains take place. There is no incentive to go beyond 'what has always been done' in society unless there are the competitive pressures of the market. A *status quo* society, a society based on tradition may, or may not, be a happy society (free of envy caused by external stimuli) but it is not a society which sees the dynamic process of increasing standards of living. It is only through the opening-up of a society to the market that tradition feedbacks upon itself and breaks-through to the new.

This is what Smith meant by the 'extent of the market'. When Adam Smith was writing society was moving from a society based on feudal lords and serfdom agriculture production. Improved agriculture production meant less labor-intensive agriculture production and the migration of agriculture workers to the cities. This in turn led to an evolution in tradition societies as cities gained in political power and country-feudal societies lost their grip on political power, slowly but surely over time. The extent of the market was increasing, as the goods which were previously traded and controlled under the power of serfdom relations were diminishing in relation to the rest of the more free, city-based, society.

The most obvious example is the nation-states under the Greeks and Romans. The political class conducted politics only. The next, lower, level of society was the unlanded guild class which passed along its craft, say the production of clothing or household furnishings, from generation to generation. The lowest level of society was slave labor, which did all the non-guild manual labor in society. The 'extent

of the market' in these societies was limited and did not grow. It was only through imperial conquest that a *polis* could expect to see their standards of living improve.

As these empires proved unsustainable the old traditional forms of society evolved as more and more people became free through the an increase in the extent of the market. Instead of the political class choosing which people could produce what and when a 'marketization' occurred where more and more people began to more and more choose their life's work. This then lead to increasing wealth for all peoples not just the landed political class. As the extent of the market increased, people's ability to choose their livelihood increased as did the productivity in society as labor became more productive through specialization. Instead of the self-appointed, usually hereditary, political leaders determining how society's resources were to be used to reproduce itself and expand, the production and allocation decisions become decentralized and reflected the life decisions of many more people and in turn created wealth for many more people; this is Adam Smith's famous 'invisible hand', a rising tide which raises all boats.

We are currently undergoing a second wave of globalization. The first wave of globalization was started during Smith's time which as known as the British Empire. In fact this empire and the international stability that this empire afforded is what allowed Smith to formulate his theories around the comparison of wealth between nations. However, Smith was dissatisfied with the British Empire. The British crown chose which companies could trade internationally and the crown gave concessions to certain business people to have monopolies for trade in specific industries and for specific goods (needless to say the most insidious of these state-granted monopolies was the slave trade). Smith believed that these government monopolies were not too far removed from the serfdom agriculture societies or perhaps even the Greek and Roman stratified *polis*, and indeed put a limit to the gains which could be had through true specialization of labor and more equal opportunities through market competition. In Smith's system of liberty, and the parallel rising tide of opulence through the specialization of labor, there was not a place for government in the market exchange. In fact, government put a limit on the extent of the market.

But the policy of Europe, by not leaving things at perfect liberty, occasions other inequalities of much greater importance. First by restraining the competition in some employments to a smaller number than would otherwise be disposed to enter into them; secondly, by increasing it in others beyond what it naturally would be; and, thirdly, by obstructing the free circulation of labor and stock, both from employment to employment and place to place. The exclusive privileges of corporations are the principal means by which it makes use of for this purpose (Smith, page 136).

If we begin *reductio ad absurdum*, which we can verify easily, we can look at certain extant African villages which have not all been effected by either the first, nor the current, waves of globalization. There are African villages which do not trade at all with others and are completely self-sufficient. These villages do not have running water nor electricity. They reproduce themselves completely through locally-grown agriculture. In general, it is the women who do all the work in the fields whereas the men are like the Greek or Roman political class who discuss politics all day while the women do all the farm work. Perhaps one of two children die before they reach school age. There is no 'extent of the market' (there is no market) as the produce is shared amongst the villagers for the subsistence and sustainability of the village. There is no specialization of labor as there is no production of goods for profit, for trade. We cannot say that these villages are of the serfdom stage of human development (except of course when the politicians from outside the village try to then influence the voting behavior of the villages through obvious spending schemes, say roads or public buildings within the villages simultaneously with the time that the voting booths are delivered to the villages).

It is an exercise in conjectural relativity to presume that the people in these villages are happier or less happy than those of other societies that have progressed to the point where there is a market. However it might be safe to say that those in villages who die early due to the lack of means to afford healthcare are worse off than those in villages who have wealth enough to afford early childhood healthcare due to market exchange. If we make the assumption that a long life is positive, and that the avoidable early death of one's child is negative, then we can then assume that the wealth created by market exchange is positive.

"Globalization" might be considered just another way of saying an international division of labor. Instead of the extent of the market being increased within one community, globalization is the means by which the division of labor, the extent of the market, is increased amongst people world-wide. In fact it is a misnomer to say that trade is amongst nations. Trade is conducted between peoples, not between nations. Whether or not peoples live in different nations is almost secondary. The only reason that political boundaries become important is when the nation-state inhibits trade. This trade prevention is no different than Smith's concern of the mercantilist system of government-granted monopolies under the first wave of globalization in the late 1700s.

We might define our current wave of globalization as that of one being lead by the 'extent' of the market to include China and India, two countries which have until the not too distant past not participated in the global economy since the first wave of globalization. These countries have been until the late 1970s been under a 'serfdom' of closed economies enforced by their central governments. As these countries have undergone economic liberalization the extent of the market has increased. It is no surprise that their economies have likewise seen economic growth which has far surpassed that of the 'western' nations which have seen increased government control of the economy since the Second World War. While the 'west' has seen the extent of the market decrease with the rise of the welfare state, India and China have seen their markets, and the specializations of their labor increase. The rising tide seen in India and China has benefitted not only the peoples of India and China but also those in the west who consume goods produced by these nations.

The political backlash against imports from India and China is no different than the mercantilist government monopolies for production and distribution in Europe during the first wave of globalization that Adam Smith was concerned about. The trade protectionism we see today is no different than trade monopolies in Smith's day. Smith knew that it was just not possible, and in fact futile and counter-productive, for political leadership to provide anything more than which the invisible hand can provide through the market.

The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interests of society (Smith, page 745).

Where there is market exchange it is just not possible for the government to revert to serfdom-like pre-market control of exchange. It is not only impossible due to dispersed knowledge under the market, it is counter to the notion of human liberty in a society which has moved beyond serfdom.

We hope that it has been clear in this essay that the term "Globalization" is nothing new, and that globalization has been with us since the time the first self-sustaining villages have moved beyond themselves in search of trade and adventure. Adam Smith wrote at a time when this trade was first reaching an ascendancy. The insights he gained and wrote about are just as applicable today as they were then. Smith knew too the dangers of specialization of labor on the human psyche. When

we become masters of a narrow specialization, we may lose the larger human instinct of the interconnectedness of all human activity. It is for this reason that Smith called for a government role in education. But this 'examined life' predates Smith and goes back to Aristotle. Human life is change. Without change we are not progressing, we are not evolving. In the economic sphere, an increase in the extent of the market makes the value of human life increase from a game of chance due to material deprivation to one of purpose. It is this truth that makes Smith just as relevant today as he was 250 years ago.