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SMITH AT 300: ON REGULATION OF THE LABOUR CONTRACT

BY

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"Whenever the legislature attempts to regulate the differences between masters and their workmen, its counsellors are always the masters. 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. Thus the law which obliges the masters in several different trades to pay their workmen in money and not in goods, is quite just and equitable" (Smith [1776] 1976, I.x.c.61, pp. 157–158).

As a key figure in the formation of economic science and in the intellectual history of liberalism, the instances where Adam Smith endorses departure from strict economic liberalism are naturally of considerable interest. As a matter of fact, it has been shown in the scholarly literature, more than once, that there are quite a few such instances (for example, Aspromourgos 2009, pp. 225–228). But the case quoted here seems not to have received much attention. Perhaps this is because, being concerned with the payment of wages in kind, it could seem of little relevance to the contemporary world, or at least to contemporary developed economies. In fact, I particularly favor this quotation both for the light it casts on Smith's politico-economic outlook *and* for its continuing relevance.

Why does Smith allow this departure from non-intervention by the state? (There is no externality involved.) To recall a much popularized phrase, why should not workers and employers be "free to choose" a labor contract for payment in kind, if they wish? Smith provides only a purely formal reason: since regulation is generally in the service of employers' interests, when it favors the workers it *must be* reasonable. To perceive a more substantive reason for his position, one should refer back to Smith's theory of wages two chapters earlier (book I, chapter viii) — a theory in which the proximate cause of the general level of wages is the balance of bargaining power between workmen and masters. From that vantagepoint, his willingness to endorse a prohibition on payment of wages in kind is evidently the expression of a willingness to constrain that balance, as an *im*balance of bargaining power, so as to limit the power of employers: "It is not … difficult to foresee which of the two parties [workmen and masters] must, upon all

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ordinary occasions, have the advantage in … dispute, and force the other into a compliance with their terms" (Smith [1776] 1976, I.viii.12, p. 83).[1]

The ongoing and contemporary relevance of the quotation is then clear: Smith has opened the door, at least a little way, to conferring legitimacy upon the regulation of unequal economic and political power that informs functional and personal income distribution.

COMPETING INTERESTS

The author declares no competing interests exist.

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[1] Compare these texts with a passage from the "Early Draft of Part of *The Wealth of Nations*": "[W]ith regard to the produce of the labour of a great society there is never any such thing as a fair and equal division. … On the contrary those who labour most get least. … [T]he poor labourer … bears, as it were, upon his shoulders the whole fabric of human society, seems himself to be pressed down below ground by the weight, and to be buried out of sight in the lowest foundations of the building" (Meek *et al.* 1978, pp. 563–564). This is a beautiful metaphor in drawing together two aspects of the labourer's position – as carrying the entire social economy while at the same time, socially invisible.