

Moral Sentiments and the Minimum Wage¹

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Abstract

Adam Smith is widely regarded as the father of political economics, and as one who provided the philosophical underpinnings of much of neoclassical economics. Since the mid-1970s there has been renewed interest in, and reinterpretation of, Smith's work. This paper looks at two aspects of this reinterpretation, the first of which is Smith's writing on wages. Smith was an advocate of high wages, a view that strongly contrasted with the received wisdom of the day. He considered that a wage which provided for a reasonable standard of living was essential for the development of an economy. The second aspect encompasses Smith's notion of the subsistence wage which traces its historic lineage to the Greek philosophers. The paper concludes that Smith, the champion of 'liberty' and non-government interference in markets, would probably have supported the notion of minimum wages, such as are now mandated in the United Kingdom, the United States and Australia. Nevertheless, the mandating of minimum wages is a necessary but not a sufficient condition for the achievement of living wage outcomes.

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Keywords

Economics; moral sentiment; minimum wage; living wage; wage principles.

1. Introduction

At the root of the minimum wage debate is a question of substantive justice, a question of what type of society we want to create and the types of values that should structure that society (Levin-Waldman 2000:43).

Adam Smith was a moral philosopher whose major work, *The Theory of Moral Sentiments* (TMS) (1759) has just celebrated 250 years of publication. In this work, Smith lays out the role of public policy aimed at the good society, and the forces shaping that policy. Smith's other opus, *The Wealth of Nations* (WN) (1776) has become the cornerstone or foundation block of neo-classical economics, a form of economics which sees, and champions, self-interest as the engine behind economic development. The twin perspectives of public good and self-interest

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do not sit well together, and can lead to difficulties for social cohesion. Further, the twin perspectives can lead to conflicting analysis of Smith's views on areas of public policy such as the minimum wage. A 'just society' approach might suggest the efficacy of mandated minimum wages; the self-interested approach would suggest a contrary policy since the profits or rents of some are reduced in order to increase the earnings of others.

In addressing these dual perspectives the article is broken into four substantive parts. Following this introductory section, Section 2 details Smith's approach to 'high wages'. He develops a schema in which market forces can lead to the 'natural' or 'subsistence' wage. That market is one of asymmetric bargaining power in favour of masters. Smith was aware of market failures, and the impact these would have on the subsistence wage. In the context of an employer-controlled parliament, however, he did not seek legislative remedies for below subsistence wages. Section 3 develops the notion of the 'living wage', a variant of the minimum wage, and seeks to determine whether or not Smith would mandate a floor below bargaining in the current environment. It suggests that there is strong evidence that he would support minimum wage legislation. By way of contemporary experience, Section 4 suggests that the mandating of minimum wages is a necessary but insufficient condition for the achievement of living wage outcomes. The final section is by way of summary and conclusion.

2. Smith on Wages

Writers acknowledge that Smith was a strong advocate of 'high' wages. In his view wages accelerated economic growth and, in turn, were determined by that growth. In his account, the division of labour results in 'the greatest improvement in the productive powers of labour' (WN: 7). He applies this division of labour to a pin factory, claiming that a ten-person factory could produce 48,000 pins a day (or 4,800 per person) compared to no more than 20 a day if produced without 'a proper division and combination of [the] different operations' (WN: 9). Division results in increased dexterity, in the 'invention of a great number of machines', and in a saving of time 'which is commonly lost in passing from one species of work to another' (WN: 11).

Smith advocates a 'natural' (or just) rate of wages. He writes, 'There is in every society or neighbourhood an ordinary or average rate both of wages and profit in every different employment of labour and stock. This rate is naturally regulated ... partly by the general circumstances of the society, their riches or poverty, their advancing, stationary, or declining condition; and partly by the particular nature of each employment' (WN: 62). As with commodities and produce, the price of labour is subject to the laws of supply and demand, rising in periods of shortage and falling in periods of plenty relative to the amount demanded (WN: 63–66).

In dealing more fully with wages Smith notes that in the 'original state of things' the whole produce of labour belongs to the labourer, and the worker does not have to share his output with either landlord or master (WN: 72). However, with the development of private property, of share farming and of general employment, rents and profit are the first charges on the produce of labour. Though

a few independent workers may have sufficient stock to purchase their materials of work and to tie them over until their work is completed and paid for (in which case the workers get the profits as well as their wages) this is rare (WN: 74). Rather, what are 'the common wages of labour, depend every where upon the contract usually made between [masters and workmen]' (WN: 74). The worker must receive a wage in order to survive and as an incentive to work, and so, too, 'something must be given for the profits of the undertaker of the work who hazards his [accumulated] stock in this adventure' (WN: 66). Similarly 'as soon as the land of any country has become private property, the landlords, like other men, love to reap where they have never sowed, and demand a rent even for its natural produce' (WN: 67). Thus, with the 'accumulation of stock and the appropriation of land' the component parts of prices must encompass a return to the worker (wages), to the undertaker (profits) and to the landlord (rents). 'In every improved society, all the three enter more or less, as component parts, into the price of the greater part of commodities' (WN: 68).

In the distribution of income that follows, bargaining power is not even, and it is 'not difficult to foresee which of the two parties must, upon all ordinary occasions, have the advantage in the dispute, and force the other into compliance' (WN: 74). The masters are fewer and can combine more easily. Further, while the laws do not prohibit combinations of masters, they proscribe combinations of workers:

We rarely hear, it has been said, of the combinations of masters, though frequently of those of workmen. But whoever imagines, upon this account, that masters rarely combine, is as ignorant of the world as of the subject. Masters 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. To violate this combination is every where a most unpopular action, and a sort of reproach to a master among his neighbours and equals. We seldom, indeed, hear of this combination, because it is the usual, and one may say, the natural state of things which nobody ever hears of. (WN: 75)

Masters also combine 'with the utmost silence' to 'sink the rate of labour' below prevailing rates. Defensive associations of labour, on the other hand, are subjected to the 'rigorous execution of those laws which have been enacted with so much severity against the combinations of servants, labourers and journeymen' (WN: 76). Thus, while combinations advantage the masters, they do little for workers and may result in the 'punishment or ruin of the ring leaders' (WN: 76).

In this one-sided situation, however, Smith suggests the need for what we would call a living wage. He writes that there is a rate below which 'it seems impossible to reduce, for any considerable time, the ordinary wages even of the lowest species of labour'. He adds:

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

generation. ... Thus far at least seems certain, that, in order to bring up a family, the labour of the husband and wife together must, even in the lowest species of common labour, be able to earn something more than what is precisely necessary for their own maintenance. (WN: 76–77)

Circumstances may permit labourers to raise their wages beyond the rate ‘which is consistent with common humanity’. During periods of ‘continuing increasing demand’ the ‘scarcity of hands occasions competition among masters’ and leads to a breaking of ‘the natural combination of masters not to raise wages’ (WN: 77). Further, such periods result in increases in the surpluses of masters and landlords, creating greater employment. In a ‘stationary country’, notwithstanding its wealth, wages will fall as will employment. Long stationary periods will result in poverty ‘of the lowest ranks of people’. Nevertheless, labourers would ‘keep up their numbers’ (WN: 80–81). In a declining economy, both wages and population would decline. In summary,

The liberal reward of labour, therefore, as it is the necessary effect, so it is the natural symptom of increasing national wealth. The scanty maintenance of the labouring poor on the other hand, is the natural symptom that things are at a stand and their starving condition that they are going fast backwards. (WN: 82)

Smith is careful to note that living standards are not based on money wages, but on real wages. The level of wages can remain constant or decrease, but if the price of the common necessities is falling faster than wages, then real wages will increase. Conversely, if price increases outstrip those of wages, the living standards will be eroded (WN: 88).

Smith believed that society is advantaged by high rather than low wages. ‘What improves the circumstances of the greater part can never be regarded as inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable’ (WN: 88).

Smith documents the mortality effects of low incomes and poverty. In Scotland ‘a mother who has borne twenty children [may] not have two alive’. The mortality amongst the children of soldiers was such that the regiments were unable to recruit fife and drum players from this stock. ‘This great mortality’, he adds, ‘will every where be found chiefly among the children of the common people, who cannot afford to tend them with the same care as those of better station. Though their marriages are generally more fruitful than the people of fashion, a smaller proportion of their children arrive at maturity’ (WN: 89).

In addition, Smith contends that high wages encourage industry. ‘A plentiful subsistence,’ he writes, ‘increases the bodily strength of the labourer, and the comfortable hope of bettering his condition. ... Where wages are high, accordingly, we shall always find the workmen more active, diligent, and expeditious, than where they are low’ (WN: 91). This is not without its danger, however, where workers are paid piece rates, since these are ‘apt to over-work themselves, and to ruin their health and constitution in a few years.’ He notes the need for recreation as a ‘call of nature’ which, if not complied with, ‘the consequences are often dangerous, and sometimes fatal’ (WN: 92). Thus, ‘if masters would

always listen to the dictates of reason and humanity, they have frequently occasion rather to moderate, than to animate the application of many of their workmen' (WN: 92).

Smith further notes that when wages are high there is an incentive for employers to increase productivity, including by the 'proper division and distribution of employment' and the supply of 'the best machinery which either he or they can think of' (WN: 96). 'There are many commodities, therefore, which, in consequence of improvements, come to be produced by so much less labour than before, that the increase of its price is more than compensated by the diminution of its quantity', that is, the increase in the amount paid for a given quantity of labour is more than counterbalanced by the diminution in the quantity of labour required (WN: 97).

The mere itemising of Smith's precepts concerning wages does not do justice to the novelty and uniqueness of his approach, nor display its marked contrast with received wisdom at that time, and indeed afterwards. Contrary to Smith's 'high wage' notions, the prevailing sentiment, as expressed by mercantilist orthodoxy, placed emphasis on low wages, and the maintenance of a 'multitude of laborious poor' (Mandeville 1924: 287). Poverty was seen not as an evil, but rather as a source of national wealth. The 'lower classes' were not only 'thought to be crude, ignorant, and inclined to riotous behaviour, but they were above all seen to be inclined to idleness. Only the constant pressure of misery saved them from idleness' (Rimlinger 1976: 335). Mercantilist writers strongly held 'the view that high wages were equivalent to low production' (Brentano 1894: 2–3).

Thus, when put into historical perspective,

Smith's views on social classes and class conflict stand out in sharp contrast to the mercantilist attitudes before him and the views of *laissez-faire* doctrinaires after him. He had a sympathetic understanding of the lower classes, which mercantilists did not have, and he recognised the flaws of the competitive system, which the doctrinaires ignored. (Rimlinger 1976: 343)

Despite his advocacy of high wages and his concern for the poor, Smith saw the market as the best instrument for ensuring a 'high subsistence' wage for labourers. He did not seek legislative intervention to ensure that the break down of the market (which he freely acknowledges) does not result in below subsistence standards. We turn to this question in the next section.

3. A System of Positive Laws

Proponents of mandated minimum wages follow in a long tradition of those seeking the 'just wage', the 'living wage', the 'needs wage' or the 'subsistence wage'.² The notion of a living wage reaches back to Greek times with both Plato and Aristotle arguing its virtues (Stabile 2008:14–15). This was embodied in Catholic and Protestant thought through the Scholastics and their academic descendants. The latter influenced Hutcheson who, in turn, lectured Smith on moral philosophy. 'Hutcheson clearly drew upon the Scholastic emphasis on mutual agreement in his discussion of labor contracts. ... Smith relied upon

Scholastic notions concerning competition and economic justice, yet added his own emphasis on economic growth for raising the wage of laborers' (Noel 2006: 160). Noel notes that while the concept of the living wage owes much to Scholastic preclassical economic thought, 'it was Smith's analysis of the process of wage determination that provides the first full exposition of the case for a living wage'. He adds: 'Smith secularized the Scholastic emphasis on cultivating virtue through community-directed market activity and pointed to particular difficulties in establishing a just wage due to the problem of social distance in commercial society' (Noel 2006: 152).³

The Scholastics wrote of the 'just wage', Smith of the 'natural price of labour'. This natural price carried community and moral values since it was a 'consensus price which individuals and the spectator⁴ view as fair in the sense of not causing injury to any party' (Young 1986: 375).

In his Lectures on Jurisprudence (LJ) Smith writes:

When the wages are so proportioned that they are exactly sufficient to maintain the person to recompense the expense of education, the risk of dying before this is made up, and the hazards that though one lives he shall never be able to become in any way serviceable, they are then in their natural state, and the temptation is great enough to induce one to apply to it. (LJ, vi. 62–63)

When wages fall below this rate, 'there is no temptation to induce any one to apply' to any trade. In this view, there is a link between the natural price of labour and a subsistence wage (Noel 2006: 161). In the *Wealth of Nations* Smith explains the institutional features that determine wage levels in particular settings. As noted in the previous section, this is a market of uneven bargaining; one in which employers may combine though workers may not; one in which masters, but not employees, can rely upon the law; one in which masters have the longer staying power; and one in which 'it is not difficult to foresee which of the parties must, upon all ordinary circumstances, have the advantage in the dispute' (WN: 11–12).

Smith further notes that masters combine 'to sink' the actual wage rates. Despite this, Smith maintains the necessity for a subsistence wage, 'a certain rate below which it seems impossible to reduce, for any considerable time, the ordinary wages even of the lowest species of labour'. This wage is 'the lowest which is consistent with common humanity' (WN: 16). Smith evokes equity to ensure workers earn a living wage:

No society can surely be regarded as flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that those who feed, clothe and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged. (WN: 36)

In Smith's schema, market forces can be relied upon to raise wages beyond subsistence levels during periods of increasing wealth. The increased demand for labour splinters employer combinations and undermines their favourable bargaining positions. Conversely, a stagnant economy will induce, at best, sub-

sistence level wages, while a declining economy will lead to wages below the subsistence levels. Thus market failure can lead to wage levels that are below those consistent with 'common humanity'. Some have noted that Smith does not suggest redress through regulation. Thus, Noel writes:

Smith's linkage of economic injustice to the failure of a market economy to deliver basic subsistence to workers does not lead him to prescribe living-wage regulations. Instead, Smith in effect directs the policy maker to the elements that make for economic growth that will ensure the accomplishment of distributive justice in wages paid ... Smith is not willing to place the burden on the state to enforce "living wage" laws, even when economic activity is in decline, and he stresses the inefficacy of wage regulations. (Noel 2006: 167, 170)

Hence, it is suggested that, confronted with below subsistence wages, Smith would not want the state to place a floor below wage bargaining. This view, though derived from different premises, would be supported by neoclassical economists who champion Smith as their revered free market ideology wellspring. This has been artfully illustrated by Evensky's comparison of the 'Chicago Smith' and the 'Kirkaldy Smith' (Evensky 2005: 245–264). The former refers to the free market ideology of neo-classical economists typified by the 'Chicago school'. 'Kirkaldy Smith' is the more encompassing Smith found in *The Theory of Moral Sentiments*, *The Wealth of Nations*, *Lectures on Jurisprudence* and other writings.

The Chicago school paradigm is one built on the edifice of *homo economicus* with people being driven by but one motive — personal utility maximisation. 'Smith', writes Evensky, 'according to his Chicago disciples, is the visionary who established this foundation and thus made the economic approach to human behavior possible' (Evensky 2005: 245). According to a member of this school, 'The Wealth of Nations is a stupendous palace erected upon the granite of self-interest' (Stigler 1975: 237). Stigler regrets the failure of many of Smith's theories because 'successors have ignored or rejected them out of hand', but adds:

Smith had one overwhelming important triumph: he put into the centre of economics the systematic analysis of behavior of individuals pursuing their self-interest under conditions of competition. This theory is the crown jewel of *The Wealth of Nations*, and it became, and remains to this day, the foundation of the theory of the allocation of resources. (Stigler 1976: 1200–1201)⁵

Becker, another member of the school, sees a much wider role for the 'economic approach to human behavior'. His writings cover a wide range of human endeavour including discrimination, human capital, marriage and divorce, crime and punishment, family behaviour, population studies, social policy, labour economics, immigration, democracy, and human organ markets. The prevailing paradigm for these studies is *homo economicus*:

The combined assumptions of maximising behaviour, market equilibrium, and stable preferences, used relentlessly and unflinchingly, form the heart of the economic approach. ... Needless to say, the economic approach

has not provided equal insight into and understanding of all kinds of behavior: for example, the determinants of war and of many other political decisions have not yet been much illuminated by this approach (or any other approach). I believe, however, that the limited success is mainly the result of limited effort and not lack of relevance. ... [T]he economic approach provides a valuable unified framework for understanding *all* human behavior. (Becker 1976: 5–14, emphasis in original)

In short, human emotions such as love and despair, the propensity to crime and good, the urge to discriminate or not, altruism and malevolence, are all matters that can be distilled into utility preferences, assigned values, and then treated as any economic commodities. Marriage is the result of assessments in the ‘marriage market’ by individuals as to whether their utilities would be improved by the married or the single state. Thus, marriage or separation is determined, not by love, children, fidelity, morality, companionship, social norms, church affiliation or family disposition, but rather whether the utility of marriage (Z_{married}) is greater than (Z_{single}). Divorce occurs when the converse is true. Embedded in this approach are both assumptions concerning the operations of markets (and non-markets) and the use of derivative mathematical models which require simplifying assumptions (usually in the form of *ceteris paribus*) and which remove many ‘real life’ variables from the analysis.

There are elements in Smith that support the impersonal, self-interested competitive market approach of the Chicago school. He (inadvertently) popularised the ‘invisible hand’⁶ and is commonly associated with *laissez-faire* (a term that does not appear in his works). Further, he did draw attention to the role of self-interest in commercial relations:

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard for their own interest. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities but of their advantages. (WN: 26–27)

Heilbroner (1986: 1) has noted that no economist’s name is more frequently invoked than that of Adam Smith, and no economist’s works are less frequently read. Smith has been the ‘single most important starting point for many political economists’, but in doing so ‘they adopted only part of Smith’s legacy and transformed it into something different in the process of abridgement’ (Haaknossen and Winch: 2006: 372). This has resulted, in many cases, in Smith being treated in a rudimentary and unrefined way in many economics texts.

However, a full assessment of Smith’s writings would suggest that reducing him to the champion of any system based upon unbridled individual self-interest is to caricature him. ‘Smith’s work is structured systematically so that the *Moral Sentiments* provides a philosophical foundation, and the *Wealth of Nations* and *Lectures on Jurisprudence* fill in the details’ (Wight 2006: 156). In *Moral Sentiments* ‘he questions what many would take to be the basic tenets of capitalism’ (Irvine 1990). Further, as Morrow has noted, Smith understood ‘the limited validity of his individualistic economics’ (Morrow 1973: 86).

The Wealth of Nations, writes Wight, 'is Adam Smith's most popular work, but it is well known that Smith himself had a higher regard for *The Theory of Moral Sentiments*, a book that explores the wellsprings of human happiness and virtue. There is virtue in markets, yet Smith would be appalled by a world that holds wealth above human connections, a world of markets unsupported by a social undergarment of social fabric' (Wight 2006: 255–256). 'Smith's work which is so important a part of our political-economic tradition,' writes Billet, 'cannot be properly understood without comprehensions of the notions of morality and justice that guide it' (Billet 1976: 296).

For Smith, individual action had to be tempered by the needs of others: 'every man so long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way and to bring both his industry and capital into competition with those of any other order of men' (WN: 651). Smith intimates what he means by justice: 'To hurt in any degree the interests of any one order of citizens, for no other purpose but to promote that of some other, is evidently contrary to that of justice and equity of treatment which the sovereign owes to all the different orders of his subjects' (WN: 618). He adds: 'One individual must never prefer himself so much even to any other individual, as to hurt or injure that other, in order to benefit himself, though the benefit to the one should be much greater than the hurt or injury to the other' (TMS: 142). At the societal level he notes:

Society cannot subsist among those who are at all times ready to hurt and injure one another. The moment that injury begins, the moment that mutual resentment and animosity take place, all the bands of it are broke asunder, and the different members of which it consisted are, as it were, dissipated and scattered abroad by the violence and opposition of their discordant affections. (TMS: 88)

Smith's moral sentiments, and the glue holding society together, revolve around the 'sympathies' people hold for each other.⁷ 'Sympathy,' however, Smith tells us, 'cannot, in any sense, be regarded as a selfish principle' (TMS: 317).

Thus, the unbridled pursuit of individual interests is at odds with Smith's notion of the good society, a society in which humans are capable of a multiplicity of motives, and a society in which individuals must be subordinated to needs of the whole. If individuals are free to exercise their own self interests, 'how does such a society offer that freedom without also unleashing a Hobbesian war of all against all?' To Evensky, the answer lies in the 'Kirkaldy Smith' whose *Moral Sentiments* provided the philosophical foundations to the *Wealth of Nations* (Evensky 2005: 248). For Mehta, such a question arises only if WN is improperly interpreted. Paraphrasing early drafts of Smith's works, he notes:

Conflicts of interest are ubiquitous in Smith's analysis. Even an established, well constituted system of natural liberty, contains deep conflicts of interest and inequities of power; inequality is a form of oppression, and low wages are iniquitous. (Mehta 2006: 257)

And what of the 'homely butcher-brewer-baker example' reference to self-interest? Fleishshacker notes that the passage is 'regularly trotted out as proof that

Smith had a radically self-interested conception of human nature in WN'. He disagrees with such a viewpoint:

Of course we address the butcher and the baker in terms of what they can get from us! Who would ever have supposed otherwise? If Smith's point was that people are always motivated by self-interest he should have used a less obvious example ... No self-respecting person, in ordinary circumstances, would dream of going into a butcher shop and begging for a cut of sirloin. ... If Smith wanted to advance the Mandevillian thesis [that people are motivated solely by self-interest], which he is elsewhere at pains to dismiss (TMS VII.ii), he would not have appealed to the paradigm ways in which we already expect self-interest to work. (Fleischaker 2004: 91)

Further, as Sen has noted, the 'liberal' approach eschews consideration of institutions that are at the heart of economic exchange:

The trouble with reading too much into [Smith's] homely butcher-brewer-baker example is that it downplays the function of institutions that sustain and promote economic activities. The concern of different parties with their own interests certainly can motivate people to take part in exchange from which each benefits. But whether the exchange will operate well will depend also on organizational conditions. There is a need for institutional development [which] has some clear connection with the role of codes of behaviour, since institutions based on interpersonal arrangements and shared understandings operate on the basis of common behaviour patterns, mutual trust and confidence in the behavioural ethics of each other. The reliance on rules of behaviour may typically be implicit rather than explicit ... [and] can be easily overlooked in situations in which such confidence is unproblematic. But whenever it is not unproblematic, the overlooking of its need can be quite disastrous. (Sen 1995: 26)

'The Political Economy of Adam Smith was the scientific expression of the impassioned crusade of the 18th century against class tyranny and the oppression of the Many by the Few,' wrote Beatrice Webb, an advocate of the 'method of legislation.'⁸ 'By what silent revolution of events,' she mused, 'by what unselfconscious transformation of thought, did it change itself into the "Employers' Gospel" of the 19th century?' (Webb 1886, cited in Rothschild 2001: 50).

Rothschild has revealed something of that 'silent revolution' and 'unself-conscious transformation'. She notes that Smith died in 1790 and was remembered for the next decade as 'a subversive and as a friend of French philosophy' (Rothschild 2001: 52). At the time of the French Revolution, the latter was not helped by Smith's endorsement of a 'liberal plan of equality, liberty and justice' (WN: 628), by his antipathy to the established church, and by Scottish uprisings that invoked Smith. Rothschild illustrates the transformation of Smith's work by way of the parliamentary debates and ensuing writings following the sudden increases in food prices in 1795–96 and again in 1799–1800. The former led to Samuel Whitbread seeking legislation that would have given magistrates powers

to fix minimum wages for farm labourers. His presentation in parliament closely followed Smith. He adverted to a desire to let prices find their own level, but also to the need to countenance 'legislative interference' to protect the rights of the poor. He noted that Smith was tolerant of wage regulation 'when the regulation is in favour of the workmen'. Smith had argued for high wages on the grounds of equity, a similar objective to the bill.

In parliament, Burke countered in a paper subsequently published as a pamphlet entitled *Thoughts and Details on Scarcity* (Burke 1800). In this he diverged from Smith on a number of important points. Unlike Smith, Burke favoured the established church, and argued that offering relief to the poor would be against the laws of Nature, which were the laws of God, and therefore an offence to the deity! Smith supported farm produce regulation, Burke did not. Smith saw conflict as an inherent part of employment relations, Burke denied any conflict of interests between employers and employees. Unlike Smith, Burke opposed the education of the labouring classes. Further, while Smith condemned monopoly power, Burke argued that monopolies were 'a great benefit, and a benefit particularly for the poor'.

Despite these and other clear divergences from Smith, and the fact that Smith's work preceded Burke's by over two decades, the editors of the pamphlet contended that in writing the *Wealth of Nations*, Smith had paid 'the greatest deference' to Burke's views. Rothschild notes that reviews of the pamphlet converged Smith's views with those of Burke. One noted that 'This celebrated author proceeds on the principles of Adam Smith that all trade should be free; and that governments should not interfere by compulsory acts and regulations, particularly in grain and agriculture'. Another review commented that Burke's work was concerned with the 'principles of Dr Adam Smith that all trade should be free'. Thus, by 1800 the transformation of Smith as 'the modern hero of commerce', and the reduction of *The Wealth of Nations* into 'little more than a single "principle"' had begun (Rothschild 2001: 64, 67). Though the transformation was by no means instantaneous (as late as 1881 Lord Acton was decrying Smith in terms of the French Revolution and socialism) nevertheless it was inexorable.

Rothschild has no doubt that the 'real Smith' would have sided with Whitbread in support of a minimum wage. She writes:

Smith's real sentiments about poverty, too, were disregarded by 1800. He is indignant in the passages about wages which inspired Whitbread, and far more so in his unpublished works; as when he says, in the lectures on jurisprudence, that the poor labourer 'supports the whole frame of society; yet is 'himself possessed of a very small share and is buried in obscurity'; that 'it may very justly be said that the people who clothe the whole world are in rags themselves'; or that 'laws and government may be considered ... in every case as a combination of the rich to oppress the poor'. He is tolerant of government interference, especially when the object is to reduce poverty. One example is his remark about equitable wage regulations; another is his support for progressive taxes on carriages, such that 'the indolence and vanity of the rich is made to contribute in a very easy manner to the relief of the poor'. Yet these pas-

sages, too, were virtually ignored in the interpretation of *The Wealth of Nations* as a book with a single principle, 'that all trade should be free'. (Rothschild 2001: 69)

We have already noted Noel's contention that Smith relied on markets, and not regulation, to 'ensure workers receive a decent income'. He suggests two reasons for this lack of legislative interest. The first, developed more fully below, is that the legislature was controlled by business interests, and more likely to legislate against labour than in its favour. The second, and more important, reason was that Smith considered Britain to be 'in a progressive state so that the overall level of real wages appeared to be well above the living wage level' (WN: 168). In such circumstances, the legislature, controlled by business interests, was more likely to reduce rather than support wages (Noel 2006).

Rimlinger suggests that 'the reasons why a man like Adam Smith takes a negative policy position are usually much more instructive than the position itself'. He notes that Smith 'did not reject government intervention simply on the grounds that a system based on natural liberty would not have serious flaws'. He was writing about the real world, which he knew had many imperfections. 'He was keenly aware not only of the possibility, but of the probability, of social oppression and economic exploitation of the poor and weak' (Rimlinger 1976: 333). In the world of Adam Smith, merchants and manufacturers had a disproportionate influence on government and always sought to manipulate it in their interest. Masters would never be at a disadvantage because they were the 'counsellors of the legislature' (WN: 142).

A number have proposed that, in different circumstances, Smith would have supported a different strategy, including minimum wage regulation. It should be remembered that for Smith government was an evolving system. In his *Lectures on Jurisprudence* he notes how governments arise, and how they 'advance in society and in what manner they gradually proceeded' (LJ: 215). During his own life, Smith, the Commissioner of Customs in Scotland, supported government intervention in a wide range of areas including the regulation of banking, the granting of patents and copyrights, temporary monopolies, minimum education requirements, postal services, the payment by cash and not truck, the provision of public goods and essential services, the establishment of indicators of quality such as the sterling mark for silver, the prevention and punishment of dishonesty and fraud, the imposition of tariffs, bounties to afford protection to merchant mariners, protection against communicable diseases, the sanitariness of streets and public places, the imposition of a ceiling on interest rates, and the imposition of taxes on luxuries (Stein 1994). Thus, Smith was not 'pure or doctrinaire about the ideal of free markets and limited government' (Stein 1994). It was not the absence of government that Smith advocated, but rather the proper role of the state (Dengate 2010: 15). With the development of more inclusive governments whose interests extended beyond those of merchants and masters, would Smith have supported adding minimum wages to his list of regulated areas?

Clary is but one who considers that he would have. She notes the role ascribed by Smith for a political economy, namely 'to provide a plentiful revenue

or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves' (WN: 139). She adds: 'There is ample evidence in the body of Smith's work to support the thesis that Smith would support public policies that might ensure the achievement of a living wage ... A living wage law could be one of the general rules of which Smith could approve' (Clary 2009: 1063).

4. A Contemporary Perspective

Developments in the two and a half centuries since Smith's writings would suggest that whatever his views on government mandated minimum wages, such mandating is a necessary but insufficient condition for the maintenance of living wages. The evidence is clear that in the absence of government intervention, the private sector is not likely to concern itself with placing a floor below wage bargaining (ILO 1970). Thus, in developing economies there is a need for governments to mandate minimum wages and employment conditions. In most developed countries governments have legislated for minimum wages, either by way of tribunals (Australasia and the UK) or, more commonly by government fiat. As the UK, USA and Australian experiences demonstrate, what governments can give they can also take away. Thus, there is more to living wage protection than governments mandating minimum wages.

In the UK the Thatcher Government abolished Wages Councils in 1993. These had determined minimum wages in low pay industries for nearly 70 years. The Blair Government reinstated a minimum wage system by way of the Low Pay Commission six years later (Brown 2002; May 2005).

In the United States, the federal government and 45 of the 50 States have legislated for minimum wages. In addition, a number of local governments and cities have ordinances prescribing minimum wage rates (Buss and Francesci 2003). In the later cases, any employer tendering for projects must meet the minimum employment conditions in the relevant ordinances. The USA federal minimum wage instances the problems that arise from benign neglect. There the minimum wage was first established in 1938 as part of the 'New Deal'. In 1997 the hourly rates was \$5.15, a rate that remained unchanged until the Democrats won control of the legislature. Over the decade of non-adjustment the minimum wage lost its value, leading to the 'Living Wage' campaign in that country (Levin-Waldman 2004; Stabile 2008; Clary 2009).

By international standards Australia embraced minimum wages at an early stage. Indeed, minimum wage legislation pre-dates federation. Illustrative of the sentiments of such legislation is the Bill introduced into the Queensland parliament by Sir Samuel Griffith which claimed that:

The natural and proper measure of wages is such a sum as is fair immediate recompense for the labour which they are paid, having regard to the labour's character and duration: but is can never be taken at a less sum than such as is sufficient to maintain the labourer and his family in a state of health and reasonable comfort. (Commonwealth Year Book 1939: 438)

The pre-federation machinery also embodied a feature that continued beyond federation, namely a penchant for industrial tribunals rather than legislative fiat. Within a short time following federation the Commonwealth and states had all legislated for such machinery. In the case of the Commonwealth, perceived constitutional constraints necessitated a tribunal, but this was not case with the states. Indeed, in many other industrial matters such as hours of work, paid leave, parental leave, long service leave and the like, have been the result of state legislation.

Plowman (1995) has traced the development of the federal minimum wage which, following the Harvester Case, quickly became the trend setter for all tribunals. In the Harvester Case (2 CAR 2-32) Justice Higgins put into effect the intent of the 1890 Queensland Bill. The case influenced subsequent decisions and established a number of principles that came to influence wage determination for many years. Thus, the minimum wage was determined as a 'needs wage' — the 'normal needs of the average employee regarded as a human being in a civilised society'. This wage was a family wage, with the family unit consisting of the parents and three children. It was 'an irreducible sacrosanct minimum wage'. Higgins instituted a bifurcated wages system of the basic wage and margins that survived until the Total Wage Case of 1967 (118 CAR 655–662). Higgins' penchant for consistency 'lest comparisons breed unnecessary resentment, discontent and industrial trouble (Higgins 1968: 41) led to the basic wage becoming a common element in all awards. This resulted in two further outcomes: greater concern with comparative wage justice, and the notion of 'test cases', since a component of all wages was altered simultaneously. Test cases have survived to this time.

Over the years Higgins' basic wage principles have undergone change, reflecting not only economic changes, but also those of society. In addition, the minimum wage has been complemented by government activities that have made it only one part of a living wage. This is best illustrated by the gradual untwining of the family unit for minimum wage purposes.

As noted, Higgins' basic wage was for a family of five. This invited criticism concerning what constituted an average family, as well as the notion that unmarried men should be paid the same minimum rate as married men with family responsibilities. Thus, by the 1920s employers were claiming that they were paying for 'two million mythical children and 450,000 mythical wives' (Campbell 1929: 12). Conversely, the Royal Commission on Child Endowment (1929) pointed out that many children were not provided for since families with more than three children did not receive addition remuneration.

The Arbitration Court continually called for the government to introduce a system of child endowment which would allow it to determine the minimum wage independently of family size (e.g. 44 CAR 38). Following its acquisition of constitutional powers in the area of social security, the Commonwealth introduced a system of child endowment in 1941. The Arbitration Court quickly adjusted to this situation and by 1949 Chief Justice Kelly indicated that family size was no longer a concern for the Court (68 CAR 773). Subsequently, the renamed Industrial Relations Commission (IRC) could claim that it was 'an

industrial arbitration tribunal not a social welfare agency... [and] the care of family needs is principally a task for government' (157 CAR 299).

In the absence of minimum wage parity between males and females, the notion of the male as the family bread winner persisted. This was the reason Higgins gave for prescribing a lower female minimum wage rate. He noted that the 'Court allows to men a living wage based on the assumption that the average man has to keep a wife and family of three children whatever the value of the work he does may be. The Court allows a living wage to a woman as single women' (11 CAR 145). Higgins established a female minimum wage at 54 per cent of the male rate, a ratio that persisted until the 1940s when, under war time conditions, it was raised to 75 per cent. Full minimum wage parity was not achieved until 1974 when the Commission noted that 'a strong case has been made for acceding to the claim for equal treatment of male and female workers in respect to the minimum wage (157 CAR 299). Thus, by 1974 the minimum wage had been stripped of family and gender considerations.

The above illustrates how industrial tribunals, left to determine their own wage principles, have adapted to societal norms over time, albeit more slowly than some proponents of change may have liked. They have also adapted their principles to reflect economics circumstances and industrial realities (Plowman 1995). Other important principles — cost of living adjustments, productivity, work value, comparative wage justice — suggest a similar tale. However, since the 1990s, less inhibited by perceived constitutional constraints, governments have become more intrusive, a development propelled by the movement to enterprise bargaining. This is reflected in the 1993 Labor legislation that introduced the award safety net. This prescribed that award conditions (other than paid rates awards) act as a safety net of minimum conditions of employment in enterprise bargaining. Awards would only apply to those without the collective strength for enterprise bargaining and would provide the 'no disadvantage test' for bargained agreements. The Commission was required to periodically adjust the safety net and did so almost on an annual basis until 2005.

The Coalition's 1996 legislation, renaming the *Industrial Relations Act* the *Workplace Relations Act*, reduced the content of awards, and by implication the safety net, to 20 'allowable matters'. The centrepiece of this legislation was the Australian Workplace Agreements (AWA) system, individual employer-employee contracts. By 2002 awards accounted for only 20 per cent of those in the federal jurisdiction (Isaac and Macintyre 2004: 5). Nevertheless, they had a wider impact. Because of its lack of majority in the Senate, the Government had not been successful in removing the 'no disadvantage test' nexus between safety net awards and agreements.

The pre-2005 period, as King and Stillwell (2005: 6) note, was one in which it was 'impossible for Australian business to follow the "Walmart route" to higher profits: keep unions out, cut wages, strip entitlements and employ the working poor'. This changed once the Coalition gained a majority in the Senate and rushed through the Work Choice legislation of 2006. This legislation reduced further the 'allowable matters', removed their 'no disadvantage test', and provided that no new awards could be made since the AIRC lost its powers to arbitrate. Further,

the Commission's safety net functions were removed. Instead a new body, the Australian Fair Pay Commission (AFPC) was charged with determining the federal minimum wage and four other minimum statutory entitlements (ordinary hours of work, annual leave, personal/carer's leave and parental leave). The AFPC determined the minimum wage from 2006 to 2009 and in the last year froze that minimum wage. This decision reflected the economic imperatives placed upon AFPC which noted its decision was intended to 'to protect jobs and to support a stronger recovery in employment as the economy picked up'.⁹

Since winning office in 2007, Labor has set about redressing some of the worse features of the 2006 legislation. The *Workplace Relations Amendments (Transition to Forward with Fairness) Act 2008* repealed most of the previous legislation. It re-introduced agreement-making safeguards and a no disadvantage test, and removed the capacity of parties to make further AWAs. The Act also reframed the safety net by way of the New Employment Standard (NES) which took effect from the beginning of 2010. The NES consists of 10 minimum standards that will provide a floor for workplace conditions. Further, the Act recasts the award system by way of 'modern awards', streamlined documents setting out terms and conditions of employment. Under this Act, and the *Fair Work Act 2009*, minimum conditions are now established through a combination of the NES and modern awards. A special panel of Fair Work Australia (the successor to the AIRC), the Minimum Wage Panel, has taken over the role of wage determination from the AFPC. The new system also restores the previous system of adjusting all awards at reviews. This contrasts with the previous situation in which the AFPC adjusted a single adult minimum wage. In short, the system has reverted back to one in which *relative* outcomes continue to be as important as *absolute* outcomes.

This foreshortened discussion of Australian minimum wage determination highlights the notion that mandating minimum wages, though a necessary condition, is an insufficient one for realising a living wage. Governments can delegate to tribunals, in which case principles are likely to evolve over time. A benefit of these principles is their transparency and capacity to adjust to societal and economic conditions. Governments can augment the wage functions of tribunals through child allowances, progressive tax regimes, health and other benefits to the lowly paid, as well as housing and education allowances and the like. In so doing, governments reduce the imposts on wage fixing machinery in developing living wage outcomes. Further, even when governments do provide for tribunals to determine minimum wages, their prescriptions around the operations of those tribunals, the emphasis on economic rather than industrial imperatives, and the circumscribing of their areas of operations can all impact on mandated minimum wages. In particular, as the US and recent Australian experience demonstrate, an over emphasis on economic criteria can result in wage freezes: it is rare for those opposing wage increases not to point to some unemployment, some inflation, or the potential for both.

5. Summary and Conclusion

Adam Smith was a supporter of high wages. He relied upon market mechanisms to deliver a 'natural' wage which was also a subsistence wage. This wage provided for 'reasonable' living, a 'social' subsistence wage. Wages were determined by bargaining in which all the advantage was with the masters, but even where these beat down the natural rate there was a basic subsistence wage below which workers could not be paid for any long period. To do so would lead to the non-renewal of labour beyond the first generation. Smith regarded high wages as the engine of development. His concern with low income earners and poverty in general were in sharp contrast with those of the mercantilists who controlled the legislature. This was a possible reason for Smith's interest in market rather than legislative solutions to poor wages. This approach was buttressed by two conditioning factors. The first was the generally prevailing prosperity in Britain at the time of Smith's writing, prosperity that fragmented employers' cohesion to hold down the price of labour. The second was the domination of the legislature by merchants, manufacturers and masters. The notion that Smith was adverse to government regulation in industry is misplaced. He advocated government regulation in many aspects of economic life. There is evidence from Smith's writings to support the view that in contemporary industrialised societies Smith would support mandated minimum wages. However, it is suggested that though a necessary condition, the mere mandating of minimum is insufficient in ensuring that living wage outcomes result. It is suggested that the minimum wage machinery must be such as to provide continual assessment of the minimum wage from a societal perspective.

Notes

1. The authors would like to thank the journal's anonymous referees for helpful comments.
2. The 'just wage' is a Scholastic concept and is a wage determined by 'common estimate' (Dempsey 1965: 12). The estimate is one guided by moral ('just') considerations. A 'living wage,' which can also encapsulate the 'subsistence' and 'needs wage,' has been defined (for the USA) as 'the wage equivalent to the poverty line for a family of four, or the amount of income generated by such a wage that would allow such a family to secure the food, shelter, clothing, health care, transport and other necessities of living in a modern society (Clary 2009: 1065). The minimum wage is the lowest hourly, weekly or monthly wage that employers may legally pay. It is a floor beneath which no full-time employee (or part-time equivalent) can be paid. It may, or may not, be a just wage or a living wage. The choice of the minimum rather than just or living wage in this paper reflects the symbiotic developments that have taken place in Australia in relation to tribunal determined minimum wages and government-provided services. The latter, by way of child allowances, progressive taxation regimes, and social services aimed at lower income

- earners, can reduce reliance on wages to deliver living wage outcomes. Further, consideration of the minimum wage (in Australia at least) removes the need to determine family size, as well as the 'family bread winner' and the discrimination attached to such a status (Plowman 1995).
3. Stabile notes that in a commercial society, as opposed to a feudal society, 'impersonal relations added difficulties to the attainment of a just wage and could diminish virtue. As a result, sympathy from employers and from public officials was needed as part of the Smithian standard of wages' (Stabile 1997: 292).
 4. For Smith, the 'impartial spectator' is defined in terms of 'the judgement we pass on our own conduct as if by a disinterested observer' (TMS: 110) or even better as 'if by our enemy or one adversely affected by our actions' (TMS: 125) (Danner 1976: 319–320).
 5. Nevertheless, Stigler was to be disappointed by Smith, who frequently departed from 'the logic of rationality, utility-maximising man when he deals with politics': why, asks Stigler, does Smith accord 'a larger role to emotion, prejudice, and ignorance in political affairs than he ever allowed in economic affairs' (Stigler 1976). The question is an interesting one but needs a different answer from the one given by Stigler and public choice theorists generally (Haakonssen and Winch 2006: 374).
 6. Rothchild is critical of the libertarian interpretation of the invisible hand, a term used but only once, and in passing, in WN. She refers to it as a 'mildly ironic joke', 'a sort of trinket'. See Rothschild 2001: Chapter 5. See also Fleischaker (2004: 297).
 7. For Smith, sympathy was the capacity to empathise with others. He wrote: 'How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortunes of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it' (TMS 1759: 9).
 8. The Webbs saw unions as developing three 'methods' The first was that of mutual insurance against unemployment and death; the second the 'method of collective bargaining' which counters employer combinations; and the third the 'method of legislation' which flows on the gains of strong union bargaining to less organised workers (Webb and Webb 1902).
 9. The AFPC's objective in performing its wage-setting function was 'to promote the economic prosperity of the people of Australia' and having regard to (1) the capacity of the unemployed and low paid to obtain and remain in employment; (2) employment and competitiveness across the economy; (3) providing a safety net for the low paid; and (4) providing minimum wages for junior employees, employees to whom training arrangements apply and employees with disabilities that ensure those employees are competitive in the labour market (WRA 1996, sec 214 (1)).

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