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**NEARER TO SRAFFA THAN MARX: ADAM SMITH ON  
PRODUCTIVE AND UNPRODUCTIVE LABOUR**

**BY**

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**ADAM SMITH ON PRODUCTIVE AND UNPRODUCTIVE LABOUR**

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ABSTRACT

We investigate Adam Smith's analysis of the properties of what he called "productive" - as against "unproductive" - labour, a concept which commentators have frequently found problematic. Puzzles have been noted and inconsistency alleged. A question arises – did Smith confuse two different concepts of productive labour? We believe that, despite the apparent problems, a coherent reading of Smith's account of productive and unproductive labour is in fact possible: if "productive labour" is understood to refer comprehensively to labour which not only maintains but, through producing a net surplus, adds to the community's stock of wealth – as regards either the financial or the real resources which make possible economic growth – the difficulties with Smith's treatment largely disappear.

*AUTHOR'S NOTE*

*This paper supercedes an earlier attempt I made to pin down the meaning and significance of Adam Smith's theory of productive and unproductive labour. (Strathclyde Discussion Papers in Economics, No.08-05) My conclusion then was that while Smith's understanding of what was needed to achieve economic growth was sound, his discussion was marred by apparently conflicting definitions of productive labour. That (essentially conventional) interpretation does not, I now believe, do justice to Smith. Revision is therefore called for: hence the present paper.*

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## Introduction

The purpose of this paper is to shed light on Adam Smith's famous – perhaps we should say “notorious”<sup>2</sup> – distinction between “productive” and “unproductive” labour. We begin by setting Smith's analysis in context.

An essential feature which distinguishes classical from neoclassical economics is that classical economists envisaged production as a *circular* process – that is to say, as a process in which the commodity inputs to production are themselves products of the production system. This classical conception contrasts sharply with the neoclassical representation of production as a *one-way* process of transformation of natural resources, through the application of labour and capital, into final goods. When inputs are viewed in classical terms as products of the system the idea of an “overplus” or “*surplus*” readily emerges when the quantity of outputs is compared with the necessary input quantities of the same commodities. Such a conception – the very hallmark of the classical understanding of a modern economic system - is of course absent from the neoclassical model. In practical terms a surplus – output in excess of what is necessary to reproduce that output - is vital in providing for the support of members of the community who do not contribute to the production of their own subsistence, and it provides also the means whereby, through savings and capital accumulation, the productive capacity of the economy can be expanded.

In the literature reference had been made, long before publication of the *Wealth of Nations*, to the concept of a surplus,<sup>3</sup> but Adam Smith, while sharing with predecessors and successors within the classical tradition recognition of the central importance of the phenomenon of surplus production, did not himself employ the terminology of “production with a surplus”; his discussion<sup>4</sup> runs instead in terms of a differentiation between “productive” and “unproductive” labour. Smith's handling of this distinction has proved problematical to many scholars, and has generally received a poor press. Even Marx, who was sympathetic to Smith's approach, expressed reservations, while members of the later marginalist school totally failed to appreciate what Smith was trying to say and regarded the productive / unproductive labour distinction as completely misconceived.

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<sup>2</sup> M. Blaug (1962, p.53) comments that “Smith's distinction between productive and unproductive labour is probably the most maligned concept in the history of economic doctrines”.

<sup>3</sup> As by Petty, Cantillon and the Physiocrats; *vide* Hull (1899), Higgs (1931) and Meek (1962).

<sup>4</sup> Smith (1776/1976), Bk.II, Ch.III.

### **Productive and unproductive labour: the Smithian classification**

The terms “productive” and “unproductive labour” first appear in the *Wealth of Nations* in Smith’s – much quoted – pronouncement<sup>5</sup> that the nation’s labour force can be regarded as falling into two distinct categories.

There is one sort of labour which adds to the value of the subject upon which it is bestowed: there is another which has no such effect. The former, as it produces a value, may be called productive; the latter, unproductive labour. Thus the labour of a manufacturer [i.e. a workman] adds, generally, to the value of the materials he works upon, that of his own maintenance, and of his master’s profit. The labour of a menial servant, on the contrary, adds to the value of nothing.

Smith’s thesis is clear – it is by employing productive labour that an investor not only recoups the funds invested, but may indeed gain a net profit from the surplus value created. Smith goes on to cite further features or properties which characterise the product of productive labour. Contrasting the very different results of employing productive and as compared with unproductive labour, he observes that the labour of the manufacturer<sup>6</sup> . . .

. . . fixes and realises itself in some particular object or vendible commodity, which lasts for some time at least after that labour is past. It is, as it were, a certain quantity of labour stocked and stored up to be employed, if necessary, upon some other occasion. That subject, or what is the same thing, the price of that subject, can afterwards, if necessary, put into motion a quantity of labour equal to that which had originally produced it. The labour of the menial servant, on the contrary, does not fix or realise itself in any particular subject or vendible commodity. The services of the menial generally perish in the very instant of their performance, and seldom leave any trace or value behind them, for which an equal quantity of service could afterwards be procured.

Here Smith is attributing distinctive additional properties to productive labour: its product can be carried forward for future use, and not only that, its product is capable of supporting in employment at least as much

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<sup>5</sup> *Ibid.*, Bk.II, Ch.III, pp.330-331.

<sup>6</sup> *Ibid.*, Bk.II, Ch.III, p.330.

labour as was engaged in its production. By contrast, when unproductive workers are employed nothing is contributed for their support in the future.

For emphasis, Smith forcefully - and provocatively - reiterated the proposition that the present contribution of unproductive labour – however eminent the labourers may be – will not ensure that contribution in the future.<sup>7</sup>

The labour of some of the most respectable orders in the society is, like that of menial servants, unproductive of any value, and does not fix or realise itself in any permanent subject, or vendible commodity, which endures after that labour is past, and for which an equal quantity of labour could afterwards be procured. The sovereign, for example, with all the officers both of justice and of war who serve under him, the whole army and navy, are unproductive labourers. . . . Their service, how honourable, how useful, or how necessary soever, produces nothing for which an equal quantity of service can afterwards be procured. . . . In the same class must be ranked, both some of the gravest and most important, and some of the most frivolous professions: churchmen, lawyers, physicians, men of letters of all kinds; players, buffoons, musicians, opera-singers, opera-dancers, etc. . . . Like the declamation of the actor, the harangue of the orator, or the tune of the musician, the work of all of them perishes in the very instant of its production.

### **Productive labour: distinguishing characteristics**

To summarise: we list below the set of characteristics said by Smith to distinguish productive from unproductive labour:

- (i) productive labour “adds to the value of the subject upon which it is bestowed”, so that the value of the product not only repays the cost of materials together with the wage bill, but yields a value surplus which constitutes a profit to the capitalist employer.
- (ii) productive labour “fixes and realizes itself” (is “embodied” we might say) in the form of the commodities it produces, commodities which possess a certain degree of durability and so can be “stocked and stored up” for future use.

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<sup>7</sup> *Ibid.*, Bk.II, Ch.III, pp.330-331.

(iii) the product of productive labour can “put into motion” a quantity of labour (at least) equal to that by which it was originally produced.

Let us work through the list.

*Criterion (i)*

Productive labour is said to yield a net profit to the capitalist employer. What lies behind this proposition? Essentially a simple fact of common observation: Smith is making the point that while the employment of “unproductive workers” such as “menial servants”, costs the employer money, putting labour to work in industry offers a very good prospect of making a profit. Workers who are employed by capital in industrial or commercial operations can generally be expected, Smith believed, to return a profit to their employer. Smith was not blind to the possibility of such ventures failing to live up to the hopes of the entrepreneur, bringing losses not gains, but took the view that, as a rule, outcomes are successful.

So, putting capital to work in employing labour is a pretty sure way of making money; how does profit arise? Although Smith does not explain the source of surplus value by reference to the labour theory of value as did Marx, his explanation is not dissimilar. As Smith sees the situation, capitalist employers possess the economic power which enables them to appropriate the lion’s share of the value added in production; only a mere subsistence wage is left for the workers.<sup>8</sup> In principle, labour is thus productive of surplus value in *any* sphere of capitalist operation; what is produced is irrelevant. The significance of the surplus-value condition is, of course, that the employment of such labour is potentially good for economic progress: the capture by the capitalists of surplus value puts in their hands finance to extend their operations.

Before concluding on the surplus-value criterion, we should note an inconsistency in what Smith says about service labour. There is no question that “menial servants”, returning no profits to their employers, properly fall into the unproductive category, but what about the “players, buffoons, musicians, opera-singers, opera-dancers” whom he also lists as unproductive along with “the sovereign, the officers of justice and of war”, etc? While the sovereign and the rest of the establishment are not employed in profit-seeking ventures, players, buffoons, musicians, opera-singers, opera-dancers normally are. The fact that their product is intangible, and that they have not worked-up materials (“adding to the value of the subject on which their

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<sup>8</sup> *Ibid.*, Bk.I, Ch.VIII, pp.83-85.

labour is bestowed”) would seem irrelevant to their status as “productive” labour: they *do* generate surplus value. Smith evidently got this wrong.

It may be noted that Marx likewise judges labour “productive” if its employment yields surplus value to the employer. But, for Marx, the creation of surplus value was the sole distinguishing feature of productive labour: he proposes no other conditions for labour to qualify as “productive”.<sup>9</sup> On that, Smith’s position, as we have seen, was different: he specified two further conditions, referring both to the product’s durability and to its ability to support labour in employment.

#### *Criterion (ii)*

Smith requires (or so it looks), as a characteristic of productive labour, that its produce must be of a material or durable nature: “productive labour fixes and realises itself in some particular object or vendible commodity, which lasts for some time at least after that labour is past”. Apparently, therefore, labour which produces services which “perish in the very instant of their performance” fails – however useful these services may be – to qualify as productive. But that conclusion does not necessarily follow: although intangible services cannot be directly stored up like tons of potatoes or stockpiles of coal, services rendered in the course of production *can* in effect be carried forward through time when “embodied” in material products.

It is not surprising that this criterion has proved controversial; questions are asked. What about the “materiality” of the product? Was Smith saying that labour supplying services cannot count as productive activity? What about “durability”? Does the production of *any* durable product justify classification of labour as “productive”? We look further into these issues shortly.

#### *Criterion (iii)*

This criterion requires that for labour to be classed as “productive” its product must be such as to “put labour into motion”. To appreciate what Smith has in mind here, we need to understand the nature of the economic

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<sup>9</sup> Marx (1862-1863, Ch.4) gives examples of (“so-called [by Smith] ‘unproductive labour’”) which *he* counts as productive: “An entrepreneur of theatres, concerts, brothels, etc., buys the temporary disposal over the labour-power of the actors, musicians, prostitutes, etc. . . . The sale of [the services] of this labour provides him with wages and profit.” Compare Smith: by Smith’s surplus-value criterion, such labour *ought* qualify as productive, as it does with Marx. Smith was apparently confused on this.

system as Smith envisaged it. His conception is of a surplus-producing economy which, over an annual cycle of production, produces more output than suffices to replace the materials used-up in the course of that production.<sup>10</sup> The surplus thus created may be used for the support of “unproductive” members of the community who make no contribution to the production of that output or, alternatively, used to add to the community’s stock of productive resources.

Even though Smith doesn’t directly describe the features of the system in these terms, it is not difficult to make out what he has in mind. The idea of outputs returning to production as inputs is of course implicit in the condition that labour is productive if its product can “put labour into motion”. The following passage makes the point explicitly: “if a quantity of food and clothing, which were consumed by unproductive, had been distributed among productive hands, they would have reproduced, together with a profit, the full value of their consumption. . . . there would have been a reproduction of an equal value of consumer goods.”<sup>11</sup> And again: if an excessive amount of current output is consumed unproductively, and not enough returned to maintain the cycle of production by supporting productive workers, “the next year’s produce”, Smith warns, “will be less than that of the foregoing . . .”<sup>12</sup>

From the Smithian perspective production is a surplus-producing process. That is evident from Smith’s observation: “The sovereign, for example, with all the officers both of justice and war who serve under him, the whole army and navy, are unproductive labourers. They are the servants of the public, and are maintained by a part of the annual produce of the industry of other people.”<sup>13</sup> Another instance: Smith laments the fact that, in the past, so much of the nation’s surplus output has been wasted in unnecessary wars, rather than applied with greater benefit to building up the capital stock of the country.<sup>14</sup> “So great a share of the annual produce of the land and labour of the country, has, since the revolution [of 1688], been employed . . . in maintaining an extraordinary number of unproductive hands. Had not these wars given this particular direction to so large a capital, the greater part of it would naturally have been employed in

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<sup>10</sup> We note here an allegation (by Dobb, 1973, pp.62-64) to the effect that Smith was confused and did not have a clear understanding of the economy’s investible surplus; O’Donnell (1990) has however convincingly refuted this charge, demonstrating that Dobb had misinterpreted the meaning of Smith’s term “nett” revenue.

<sup>11</sup> Smith (1776/1976), Bk.II, Ch.III, p.339.

<sup>12</sup> *Ibid.*, Bk.II, Ch.III, p.342.

<sup>13</sup> *Ibid.*, Bk.II, Ch.III, p.331.

<sup>14</sup> *Ibid.*, Bk.II, Ch.III, p.345.

maintaining productive hands, whose labour would have replaced, with a profit, the whole value of their consumption. . . . More houses would have been built, more lands would have been improved . . . more manufactures would have been established . . .” A surplus-producing capability implies a potential for growth, though that capability may not be used to the best advantage.

We must now ask: what is the labour which, in this context, qualifies as “productive” by reason that it “puts labour into motion”? Labour is “put into motion”, i.e. supported in employment, by the efforts of the workers who supply means of subsistence (food, clothing, shelter), plus those of the workers who provide the materials and equipment necessary for carrying out productive operations. These workers are in turn supported by others who supply to them the subsistence, materials and equipment they require. And so on. All these workers count as “productive” by virtue of their contribution to the support of labour in employment.

“Productive” workers, engaged in the many interdependent industries comprising the economy, support each other through their respective contributions to production. The engineering industry, for instance, supplies machines to the textile industry, which manufactures clothes for the engineering workers, and both engineering and textiles depend on the services of the transport industry, which in its turn makes use of goods produced by the textile and engineering sectors. The labour of productive workers collectively throughout the system keeps the economy in operation, maintaining, period by period, the supplies of necessary inputs - of materials, fuel, equipment, and wage-goods needed to support the workforce in employment – replacing (and more than replacing) what is constantly being used up. On the other hand, workers who manufacture luxuries for consumption by the wealthy do not count as productive in that their produce does not go, either as producers’ goods or wage-goods, to support themselves or other workers in employment.

The set of interdependent industries in which productive labour is employed (with the labour in each industry mutually supporting the labour in the others) may be viewed as forming a self-sustaining “core” of the production system, a key sector which supplies all its own input needs, and via the surplus of its output over its own input usage, provides the means of putting labour into motion in other, non-essential activities. This core sector essentially corresponds to what Piero Sraffa (1960) identifies as the “basic sector”. While the idea of such a sector is implicit rather than explicit in Smith’s analysis, he certainly does recognise the essence of the concept – that a certain set of workers (productive labour by criterion (iii)) produce and re-produce the “necessary” goods required to “put labour into motion”, and in doing supply a surplus of these goods which makes possible capital accumulation and the support of the unproductive.

Smith was fully aware of the complex interaction and interdependence of activities characteristic of a modern industrial system. Consider, as highly relevant in this context, his famed account of how the manufacture of simple product such as a labourer's woollen coat involves "the assistance and co-operation of many thousands" of workmen across the economy; how, that is to say, it involves the assistance and co-operation of many thousands of *productive workers*, the products of whose labour "put into motion" labour in a vast range of activities, ultimately helping to "put into motion" the workman who comes to wear the coat. We don't have space to quote the complete passage, but note the following:<sup>15</sup>

The shepherd, the sorter of wool, the wool-comber or carder, the dyer, the scribbler, the spinner, the weaver, the fuller, the dresser, with many others, must all join their different arts in order to complete even this homely production. How many merchants and carries, besides, must have been employed in transporting from some of those workmen to others who often live in a very distant part of the country! . . . What a variety of labour too is necessary to produce the tools of the meanest of those workmen. . . . what a variety of labour is requisite in order to form that very simple machine, the shears with which the shepherd clips the wool. The miner, the builder of the furnace for smelting the ore, the feller of the timber, the burner of the charcoal to be made use of in the smelting house, the brick-maker, the bricklayer, the workmen who attend the furnace, the mill-wright, the forger, the smith, must all of them join their different arts in order to produce them.

Such is the number of workers (Smith says "beyond all computation") who – to repeat the point at issue - contribute to putting our labourer into motion by providing him with his woollen coat. We emphasise that all labour, working within an interdependent industrial system, producing the inputs, including wage-goods, necessary to maintain the system in operation (or expand it), satisfies Smith's criterion (iii) and therefore qualifies for classification as "productive labour".

Let us call criterion (iii) the "necessary goods" criterion; labour which produces the "necessary goods" required to "put labour into motion" qualifies as "productive".

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<sup>15</sup> *Ibid.*, Bk.I, Ch.I, pp.22-23.

This criterion points to a property of productive labour not demanded by the previous two criteria. Specifically, if labour meets this criterion, its contribution renews – and indeed more than renews - the necessary goods (and services) used-up in current production. From this perspective, productive labour puts in place *resources of a character appropriate to maintaining and (via a surplus of necessary goods) increasing the current level of output*.<sup>16</sup> Labour engaged in producing, say, fine porcelain, sedan chairs, or wedding hats would not count as productive<sup>17</sup> but labour producing more mundane consumption goods - working clothes, porridge oats - or equipment such as improved spinning machines, would.

This ‘necessary goods’ criterion points to an interesting theoretical link. What we suggest (as hinted above) is that Smith, in groping in this direction for a characterisation of productive labour, was heading towards recognition of a distinction introduced years later by Sraffa (1960) – the distinction, that is to say, between the “basic” and “non-basic” sectors of an economy.<sup>18</sup> It looks very much as if the “necessary goods” criterion of productive labour suggested by Smith’s analysis, if applied in the context of the Sraffa system, would identify as “productive” the labour employed in what Sraffa describes as the basic sector of the economy. In Sraffa’s model, the basic sector of industry supplies to itself and to the rest of the economy “basic” goods – essential commodities without which no industry can operate. *Without such basic goods labour cannot be “put into motion”*. The surplus of basic goods over the basic sector’s own requirements supports all non-basic and non-producing sectors of the economy, as well as supplying investment goods for capital accumulation. The interpretation of Smith that we are suggesting is that the goods produced by labour identified by his “necessary goods” criterion as productive, are in fact analogous to Sraffa’s “basic” goods, and correspondingly, the labour which in Smith’s analysis produces these necessary goods is equivalent to the labour employed the basic sector of the Sraffa system.

Let us adapt our terminology, and, emphasising the Sraffa connection, re-designate “necessary goods” as “basic goods” and rechristen the “necessary goods” criterion as the “basic goods” criterion.

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<sup>16</sup> The example provided in the Appendix illustrates how use of the surplus of necessary goods to employ productive in place of unproductive labour could transform the growth prospects of an economy.

<sup>17</sup> Labour producing luxuries such as these consumes necessary goods *without replacing what it consumes*.

<sup>18</sup> W. A. Eltis (1976, p.434) observes that, in modern economic theory, the “the sole echo of Smith’s distinction [between productive and unproductive labour], . . . is Piero Sraffa’s classically based *Production of Commodities by Means of Commodities* . . .”

## Taking stock

We have no serious problems with criteria (i) and (iii). Criterion (i) makes the point – more or less clearly - that a significant characteristic of what Smith describes as productive labour is that its employment yields surplus value to its capitalist employer. Criterion (iii) is straightforward – labour rated by this criterion as productive is engaged in the production of necessary / basic goods, which as inputs are essential for the continued operation of the economic system, and for its expansion. Included within the category of basic goods are materials and equipment, together with wage-goods, as required to support labour “in motion” in the basic industries of the industrial system. Luxury – non-essential goods – which do not contribute to the support of labour, of course fail to meet the condition imposed by criterion (iii).

Criterion (ii) is more problematical. The way Smith puts the matter rather invites the misinterpretation that workers who produce services as distinct from material commodities are debarred from the productive category. On closer investigation it is, however, evident that service provision, at least the provision of services which contribute to the production of the basic goods of criterion (iii) is *not* relegated to the category of unproductive labour. In discussing “the different employment of capitals”<sup>19</sup> Smith observes that capital may be employed (amongst other uses) in “in transporting either the rude or manufactured produce from the places where they abound to those where they are wanted, [and] in dividing particular portions of either into such small parcels as suit the occasional demands of those who want them”. Given his dictum that “whatever part of his stock a man employs as capital . . . [h]e employs it . . . in maintaining productive hands only”, it is evident that Smith is fully prepared to regard as “productive” the labour providing services which constitute an essential part of the production process.

There is a further difficulty as regards the durability of products. Durability *per se* cannot be an attribute of a product which qualifies the producer as productive: a statue in marble does not help to put labour into motion. The relevant consideration is whether the product in question serves (or may eventually serve) to do so. On both these counts, therefore, criterion (ii) appears to add nothing to what is covered under criterion (iii).

We now ask if the specified criteria identify a single unambiguous concept of productive labour. The answer is that they appear not to do so: not one, but two different concepts of productive labour are indicated.

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<sup>19</sup> Smith (1776/1976), Bk.II, Ch.V, p.360.

Taking criterion (i) on its own, productive labour is identified as labour which produces surplus value; taking criteria (ii) and (iii) together, productive labour is defined as labour which produces necessary goods which “put labour into motion”. Both are perfectly reasonable characterisations of productive labour, but they refer to different properties and need not denote exactly the same sets of workers. Labour, which from one perspective rates as productive, may not do so from the other. For instance: labour engaged in the manufacture of basic goods can be expected normally to return a profit to the employer, but, on the other hand, say, actors in the theatre, while generating profit for a capitalist, are doing nothing to renew supplies of the necessary goods which they consume. In terms of the surplus value criterion, both groups qualify, but, by the basic goods criterion, one set of workers rates as productive and the other does not.

### **Objections and difficulties relating to Smith’s concept of productive labour**

#### *Confusing “useful labour” with “productive labour”*

We begin with what is probably the most famous objection to Smith’s analysis – that it is nonsense to characterise, as Smith does, many eminent and important members of the community as “unproductive” - on the grounds that they fail to meet *any* of the specified criteria. It is no wonder that the supposedly pejorative implication of the term “unproductive” provoked complaint. For instance, Sir Alexander Gray (1931, pp.138-139) dismisses the distinction between productive and unproductive labour as “an evil legacy of the Physiocrats”, and warns readers that “there may be all manner of occupations which are unproductive in the Smithian sense, but yet indirectly are of the highest productivity”.<sup>20</sup>

Those who took exception to Smith’s description of respected members of the community as “unproductive” were, of course, missing his point. The usefulness or otherwise, in terms of consumer satisfaction or social benefit, of particular sorts of labour was *not* the issue with which he was concerned: as the objectors should have noticed, Smith explicitly makes the point that his classification of an activity as “unproductive” does not imply that it is of no use or value to the community, allowing in fact that so-called “unproductive” activities

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<sup>20</sup> Later authorities, for example, Schumpeter (1954) and Hollander (1973) are no less hostile to the Smithian distinction. Schumpeter (pp.628-630) dismisses the whole issue as a “dusty museum piece”; Hollander (p.147) refers to Smith’s ‘unfortunate choice of terminology’ and seems to believe that Smith was mistakenly neglecting the importance of the service sector. Neither commentator appears to appreciate that Smith is thinking about the source from which a surplus of essential output is derived, and warning that the consequence of employing labour “unproductively” is that less surplus output is available for investment and economic progress.

may well be “honourable”, “useful” or “necessary”.<sup>21</sup> What did concern Smith was waste of resources through excessive unproductive employment, with the wealthy spending on “baubles and trifles” and maintaining armies of servants, while politicians are prone to squander wealth on “unnecessary wars”.

#### *Issues of materiality and durability*

Interpreted quite literally as a proposal that labour be recognised as productive only if its direct product possesses physical durability, criterion (ii) has troubled commentators. J S Mill (1866, pp.28 and 30), for one, asked, “why refuse the title [of productive] to the surgeon who sets a limb, the judge or legislator who confers security, and give it to the lapidary who cuts and polishes a diamond?” If, as pointed out above, we look beyond the particular passage in which Smith enunciates this criterion, it is clear that commentators who have expressed concern about this materiality criterion have taken Smith’s words in too literal a sense. Smith did rate as “productive” labour which, even if its own direct and immediate contribution is of an intangible character, contributed to the production of material, and thus (in some degree) durable commodities which could be “stocked and stored up” and used to “put labour into motion”. In other words, while “menial servants”, “the officers both of justice and war”, etc, are confirmed as “unproductive”, the carter delivering materials to the factory, the retailer providing a convenient supply of consumption goods to members of the workforce are at the same time placed in the category of productive labour.

#### *Marx on Smith*

While Marx was full of praise for Smith’s identification of the generation of surplus value as a characteristic of productive labour, he was all against Smith’s other concept of productive labour, depending as it did on the nature of what labour produced: that, in Marx’s opinion, was a mistake. He accused Smith of hanging on to notions of a Physiocratic character. Marx saw the question of productive labour solely from the angle of income distribution: as surplus value could be extracted from labour by capital *in whatever industry* labour was employed, there was no point in differentiating between activities in which labour might be employed.

But as we have seen, Smith was taking a broader view of the contribution of productive labour – seeing productive labour not only as the source of surplus value, but as being also of vital importance in providing

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<sup>21</sup> Smith’s critics have failed to distinguish “productive labour” (the subject of Smith’s discussion) from what Marx described as “useful ‘labour”, i.e. labour supplying goods and services which directly provide utility to users. (Marx, 1867/1990, Vol.I, Ch.1, pp.132-133).

for the growth of the economy. He therefore, appropriately, includes in the “productive” category labour whose contribution in terms of producing real, physical output he recognised as essential to the achievement of economic progress. Thus in criticising Smith for giving attention to the “material characteristics” of the product of labour, Marx was apparently thinking too narrowly in terms of his own theoretical concern, thus missing the point of what Smith was saying.

It is interesting that in recent years Marxist theorists have come to see the virtue in Smith’s inclusion within the productive category of labour engaged in the production of basic commodities. We note that a number of scholars, even though approaching the issue from a Marxian perspective, actually prefer a Smithian to the Marxian approach. Specifically, they show a readiness to abandon Marx’s position that productive labour is characterised solely by an ability to create surplus value, and accept that the nature of the product may be a relevant consideration.

Ian Gough (1972, pp.65-66), drawing on works by Gillman (1966), Morris (1958) and Blake (1960), takes the view that if we are thinking about economic growth (as of course Smith was), while labour employed in Marx’s Departments I and II (producing respectively equipment and wage-goods), may properly be classified as productive, labour of Department III (luxury goods) - which as creating surplus value, is rated productive in Marx’s own terms – should be excluded from the productive category.

Gough continues:

Blake suggests that for a political economy of growth, a sufficient definition of productive labour is ‘labour whose products can re-enter the cycle of production as elements of variable and constant capital . . . even when such employment does not directly produce surplus value’. . . . This is a logical development of the neo-Smithian concept, but one which serves to divorce it clearly from the Marxian concept.

As Gough recognises, this amounts to a revival of Smith’s “basic goods” concept of productive labour, as appropriate in the context of capital accumulation and growth, in preference Marx’s definition solely in terms of the creation of surplus value. Smith, we may be sure, can be cleared of Marx’s charge that differentiating between productive and unproductive labour on the basis of the type of output produced amounts to no more than a misguided irrelevance.

### *Inconsistent definitions or concepts of productive labour*

We came to the conclusion that Smith's criteria point to two distinct definitions or concepts of productive labour – (a) as creating surplus value and (b) as producing the basic goods which put labour into motion. Unfortunately, these concepts appear to conflict in that labour which qualifies as productive in terms of one concept may not pass the other Smithian test. How, for instance, are we to regard labour whose employment yields a profit to the capitalist, but whose output (say, a Fabergé Easter egg) is neither a piece of equipment which “aids and abridges” labour in production nor a subsistence good? Such labour, even though rated as productive according to criterion (i) is certainly not, as required by criterion (iii), producing a “basic” good which can “put labour into motion”. Labour employed in such activities would appear by Smith's criteria to be at the same time both “productive” and “unproductive”.

We seem to have arrived at a rather unsatisfactory situation. Smith does not, it would appear, provide an unambiguous identification of precisely what labour rates and does not rate as “productive”; complaints have certainly been made. Looking at the issue from a Marxist perspective, I. I. Rubin (1929/1989, p.215) observes that “Smith is obviously unaware that he is putting forward two definitions [of productive labour] that do not fully concur with one another”. Maurice Dobb was evidently unimpressed by Smith's attempt to define what he understood by “productive labour”. Dobb comments (1973, p.60):

. . . in explaining wherein the difference between “artificers and manufacturers and merchants”, on the one hand, and “menial servants” consisted, Adam Smith is far from clear. Here he introduces two distinct, if largely overlapping, definitions, involving (as Marx pointed out) certain contradictions between them, or at least displaying no clear boundary between the productive and the unproductive.

Eric Roll (1973, p.168) is similarly critical:

Throughout chapter iii of the second book [of the *Wealth of Nations*], two separate definitions of productive and unproductive labour are intermingled. . . . Productive labour is . . . defined both as labour which creates value and as labour which creates a surplus for the employer. With this confusion there is mixed up another. Smith also defines productive labour as that which “fixes and realises itself in some particular subject or vendible commodity” . . .

So, is Smith confused as to what precisely the term “productive labour” is meant to mean? We have already noted an inconsistency in Smith's account of productive labour, in that labour which produces certain services at

a profit, is nevertheless represented as unproductive. This we take to be a regrettable error, but one which has no bearing on the point at issue here – the question of whether Smith’s presentation of two different concepts of productive labour implies a fundamental confusion on his part about what productive labour actually is.

The Fabergé egg case exemplifies the anomaly which has particularly troubled the critics: labour engaged in the production of luxury goods is unproductive (by the basic goods concept of productive labour), but at the same time, in returning profit to the entrepreneur, is productive (surplus value concept of productive labour). This does look awkward for Smith, but it has been suggested that he may have avoided an accusation of inconsistency by the simple expedient of leaving problematic workers of that sort out of the picture. Thus Myint (1948, p.73): “The classical economists were working on the basis of an economic system where the bulk of material commodities consisted of ‘necessities’ or basic wage-goods, and where ‘luxuries’ were mainly made up of the services of the menial and professional classes.” In other words, if, in addition to suppliers of luxuries supported out of revenue, the number of employees of capitalist operations producing bejewelled Easter eggs and comparable baubles was negligible, it would have been quite natural, and legitimate, for Smith to ignore them. If so, no contentious profit-producing luxury workers would be present to complicate the story.

As a defence the argument is ingenious. However, we doubt that Smith would have assumed such workers out of existence; he certainly does not overlook the fact that labour is employed in the manufacture of luxury items of a material character. For instance, reviewing the spending patterns of “[men] of fortune”<sup>22</sup>, ranging from the maintenance of large numbers of servants, dogs and horses, through the accumulation of “baubles and trinkets”, to (in Smith’s opinion) more judicious purchases of “useful or ornamental buildings ... furniture ... books, statues, or pictures”, he notes that expenditures of the latter sort, in comparison with spending on services, give employment to a greater number of people, including productive workers such as “masons, carpenters, upholsterers, mechanics, etc”; he concludes, “. . . one sort of expense, as it always occasions some accumulation of valuable commodities . . . and as it maintains productive rather than unproductive hands, conduces more than the other to the growth of public opulence.”

The suggestion we now make is that it is not necessary to resort to such stratagems – for the reason that the alleged inconsistency in Smith’s treatment of the concept of productive and unproductive labour is, arguably, more apparent than real.

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<sup>22</sup> *Ibid.*, Bk.II, Ch.III, pp.346-349.

The point on which Smith's critics focus is that the groups of workers identified by his two concepts of productive labour are not the same – they overlap to a considerable extent, but not completely. Our proposal is that, in coming to a view on this alleged inconsistency, we should concentrate on what is *common* to the two concepts rather than on their differing implications regarding the people employed. Thus: both concepts identify labour as productive by virtue of possessing a property, or properties, of the first importance for the attainment of economic growth: (a) an ability to create surplus value, essential for saving to be possible and investment to be financed, and (b) an ability to create a surplus of the basic goods supportive of labour in making additions to the country's capital stock. Workers possessing either property produce what is essential for capital accumulation and growth; the two sorts of surplus-production in fact complement each other in putting in place the resources required for growth.

We therefore propose that the term "productive labour" be interpreted in a comprehensive sense to include, in one general category, both concepts of productive labour as attributed to Smith. A distinction may be drawn between surplus-value-producing, and basic-goods-producing workers, as representing sub-categories of productive labour, but, given what is common to both, it seems logical to view them collectively as constituting one all-inclusive class of productive labour. That, we suggest, is exactly what Smith meant by "productive labour" – labour which produces a valuable surplus, regardless of whether that surplus is of the one sort or the other.

From this angle, it doesn't matter if, as would be expected, the different sub-categories are not comprised of the same productive labourers: their specific contributions are different, but they are all "productive" in that they produce a surplus (of whichever kind) without which economic progress cannot be achieved. We take the position that although Smith does indeed use the term "productive labour" in different senses to describe two different sets of workers, as these are sub-sets of a more general category of productive labour, no inconsistency is involved.

We have looked into a number of "objections and difficulties" concerning Smith's concept of productive and unproductive labour. We find that Smith's treatment, although not altogether fault-free, generally stands up to the objections raised by the critics. The classification according to Smith's criteria of certain categories of labour as "unproductive" does not imply condemnation of the labour of unproductive workers as of no value to society. There was really no excuse for critics to take that meaning. Likewise, interpretation of the term productive as applying only to labour producing tangible commodities derives from a misreading of Smith: although the point is not over-emphasised, Smith did indeed recognise the essential part played by all sorts of service providers in

the process of transforming raw materials into finished products. Again, Marx's objection to Smith's taking the product of labour as relevant to determining the status of labour, is ill-founded: given Smith's interest in the necessary conditions of economic growth it was entirely appropriate that he should do so. Finally, we have suggested that, taking an all-encompassing view of productive labour as all labour which produces a surplus, in value or in real terms, capable of engendering growth, no issue of inconsistency arises if certain workers qualify as productive by reason of their contributing to one surplus, without contributing to the other.

## Conclusion

Smith's account of productive and unproductive labour has not always been well-received. We however take a positive view: his treatment of the concept, we believe, shows a remarkably penetrating insight into the conditions which, on the one hand, favour and promote economic growth, and which, on the other, frustrate it. The discussion in which productive and unproductive labour feature is all about the conditions for achieving growth – about increasing “the annual produce of the land and labour of any nation”. That can be achieved, Smith explains, only<sup>23</sup>

. . . by increasing either the number of its productive labourers, or the productive powers of those labourers who had been before employed. The number of its productive labourers, it is evident, can never be much increased, but in consequence of an increase in capital, or the funds destined for maintaining them. The productive powers of the same number of labourers cannot be increased, but in consequence either of some improvement to those machines and instruments which facilitate and abridge labour; or of a more proper division and distribution of employment. In either case an additional capital is almost always required.”

Investment, that is to say, is the key to growth. This is where the concept of productive and unproductive labour fits in. A value surplus and a surplus of necessary goods (fixed and working capital) to support labour in motion in producing capital goods are both required – the former to permit the purchase of capital goods, the latter to ensure their supply. The significance of productive labour is that, without its (double) contribution, investment, capital accumulation and an increase of the annual produce of the nation simply cannot occur. Smith says it all in the title of Chapter III of Book II: “Of the Accumulation of Capital, or of productive and unproductive Labour”.

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<sup>23</sup> *Ibid.*, Bk.II, Ch.III, p.343.

In classifying labour as productive if its employment yields surplus value to the employer, there is evidently an affinity between Smith and Marx; but what is common to them both regarding the concept of productive/unproductive labour does not extend beyond that. Marx, as we have seen, was strongly opposed to Smith's specifying further grounds for differentiating between productive and unproductive labour by reference to the nature of the product which labour produced. In this, it would appear, Marx was blind to Smith's outstanding intellectual achievement of identifying as an additional category of productive workers, those engaged in the production of the commodities which "put labour into motion" – workers whose contribution was of special significance.

It is quite remarkable how Smith anticipated – at least in essence - the distinction Sraffa would later draw between basic and non-basic activities. As the perception that labour can be divided into two categories, one which produces and re-produces for all, the other which consumes without replacing its consumption, was fundamental to Smith's conception of the economic system, so is its equivalent in Sraffa's system. We are not of course arguing that Smith anticipated the depth and rigour of Sraffa's analysis – Smith has, for instance, no idea of a notional "standard system" in which the properties of the actual system are revealed – but the essential features of the Sraffa model (which, to repeat, are of surplus production of basic goods by a key sector comprised of numerous interdependent, mutually-supporting activities) can be identified in Smith's depiction of the working of the contemporary economy.

Finally, concluding this paper, we come to the phrase in the title - "nearer to Sraffa than Marx"; the point, which we hope should by now be obvious, is that when we compare the views of Adam Smith against those of his two greatest successors within the classical tradition, we find that his perceptive understanding of the essential conditions for increasing "the wealth of nations" places him much closer to Sraffa than to Marx. Marx did not appreciate what Smith was getting at in his analysis involving productive and unproductive labour; Sraffa – had he published his thoughts on Smith – might very well have identified a precursor working along similar lines.

It is regrettable that Adam Smith's distinction between productive and unproductive labour has so often been dismissed as a confusing aberration. Essentially Smith's thesis was that employment of *productive labour* which though its activities *not only renews but increases* a country's productive resources (real and financial), rather than *unproductive labour* which consumes such resources without reproducing them, is the route to increasing the value of the annual produce of the nation. The truth of the matter, we reckon, is that his analysis was original and penetrating, and – although admittedly not altogether free of elements of confusion and obscurity – reveals

nevertheless a deep understanding of the structure and working of a surplus-producing economic system, of an economy possessing the characteristics of the then-emerging capitalist, industrial economy.

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## **APPENDIX**

### **An illustration**

Consider the anatomy of a simple (Sraffa-type) surplus-producing economic system, in terms of which we may interpret different identifications of productive labour.

Suppose the economy in question to consist of six industries or sectors, namely *iron* (representing engineering), *coal* (representing fuel and energy), *corn* (standing for agriculture and the production of food, textiles, leather, etc), *transport* (providing essential logistical support), a *luxury* sector, producing 'non-essential' goods of all kinds, and finally, a non-industrial sector of *domestic services*. The iron, coal, corn and transport industries are interdependent in that some portion of the goods they produce enter as inputs into each other's production; by contrast, the industries comprising the luxury sector produce only goods for final consumption. Production takes place period by period over time, with part of each period's output returning, as replacement for the resources used-up, to the production process in the following period.

This is obviously a highly stylised representation of a real-world economic system. A major simplifying assumption is that all inputs, even items such as machinery, are treated as working rather than, more realistically, as fixed capital. That assumption - after Sraffa (1960) - serves to simplify the model without affecting its validity as a representation of a surplus-producing system. Commodities are broadly defined: for instance, in producing "iron" the iron industry is understood to manufacture materials and intermediate goods as well as final goods for use by investors and consumers.

The community consists of (wealthy) *capitalist employers*, who derive profits from their industrial operations, *industrial workers* paid a standard wage, and *domestic employees* - "menial servants" who are paid the same

wage as the industrial workers. Total population is 5,300 “labour units” (or families), comprising 3,800 dependent on industrial employment, 1,000 employed in domestic services and 500 well-to-do employers. It is supposed that the real wage per unit of labour (over the period in question) consists of a package of 2 iron + 1 coal + 4 corn + 1 trans; only the employers can afford luxuries and domestic services.

Input-output relationships are shown in Table 1. The rows show a sector’s inputs as required to produce the current volume of output, and the columns show the lines of production to which each product is applied. Each sector uses, per period of time, certain physical quantities of inputs (measured, as appropriate, in tons, ton-miles or man-hours). In each period of production the economic system produces (i.e. *reproduces*) the total industry usage of inputs (including subsistence goods for the maintenance of industrial employees); in addition, a *surplus* of subsistence goods over industry’s requirements is supplied, and used for the support of employers and domestic servants, plus a quantity of luxury goods which, together with domestic services, are purchased (only) by the employer class.

**Table 1 /**

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**Table 1: the economy as a whole**

	<i>Iron</i>	<i>Coal</i>	<i>Corn</i>	<i>Trans</i>	<i>Lux</i>	<i>Labour</i>	
<i>Iron</i> uses	2340	+ 2800	+ 600	+ 1200	+ 0	+ 334	to produce 18400 iron
<i>Coal</i> uses	1000	+ 2000	+ 400	+ 700	+ 0	+ 237	to produce 15800 coal
<i>Corn</i> uses	750	+ 660	+ 3000	+ 800	+ 0	+ 429	to produce 29200 corn
<i>Trans</i> uses	800	+ 4000	+ 2000	+ 600	+ 0	+ 400	to produce 10000 trans
<i>Lux</i> uses	2910	+ 1040	+ 2000	+ 1400	+ 0	+ 2400	to produce 18000 lux
.....							
<i>D-ser</i> uses	0	+ 0	+ 0	+ 0	+ 0	+ 1000	to produce miscellaneous non-marketed services

Commodity usage of industrial sector:

	<i>Iron</i>	<i>Coal</i>	<i>Corn</i>	<i>Trans</i>	<i>Lux</i>
material inputs (excluding wage goods):	7800	10500	8000	4700	0
wage goods (with labour usage in industrial sector = 3800)	7600	3800	15200	3800	0
total material inputs (including wage goods) of industrial sector	15400	14300	23200	8500	0

Surplus output of industrial sector:

18400	15800	29200	10000	18000
less	less	less	less	less
15400	14300	23200	8500	0
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3000	1500	6000	1500	18000

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The surplus output of the industrial sector - what remains after all costs of production, including the support of the workforce, have been met from current production - is available for use by the owners/employers, as they choose, for their own consumption, for investment or for the maintenance of servants.

If all labour the employment of which yields surplus value is deemed productive, then (assuming all industrial operations are profitable) the workers in all five sectors of the industrial system – iron, coal, corn, transport and luxuries – fall into the productive category.

We now introduce Sraffa's (1960) distinction between "basic" and the "non-basic" industries. *Iron, Coal, Corn and Trans* form an interdependent set of industries which together comprise the "basic" sector of this economy – "basic" in the sense that these industries provide essential inputs, including wage-goods, to every industry operating within the economy. By contrast a "non-basic" industry (*Lux*), while itself dependent on the output of the basic sector, makes no contribution to the production of that sector. We designate the products of the basic sector – iron, coal corn and transport services – as "basic goods".

The basic sector is itself surplus-producing, replacing its own usage of resources, and supplying also the basic goods essential for keeping the non-basic sector in operation, and subsistence goods for all members of the community. Maintaining the supposition that each unit of labour is paid per period a real wage package consisting of 2 iron + 1 coal + 4 corn + 1 trans, the *total material inputs* (inclusive of wages paid) of the basic sector, its *output* and the *surplus* it produces, are as shown in Table 2:

**Table 2 /**

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**Table 2: the basic sector**

*Iron Coal Corn Trans [Labour]*

*Iron* uses 3008 + 3134 + 1936 + 1534 + [334] to produce 18400 iron

*Coal* uses 1476 + 2238 + 1352 + 938 + [237] to produce 15800 coal

*Corn* uses 1606 + 1088 + 4712 + 1288 + [429] to produce 29200 corn

*Trans* uses 1600 + 4400 + 3600 + 1000 + [400] to produce 10000 trans

Total material usage of basic sector (including wage goods for support of the workers):

7690 10860 11600 4760 [1400]

The surplus produced by the basic sector:

18400 less 7690 = 10710 iron, together with

15800 less 10860 = 4940 coal, together with

29200 less 11600 = 17600 corn, together with

10000 less 4700 = 5300 transport services

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**Table 3 /**

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**Table 3: use of the basic surplus:**

Iron:	4800 as wage goods for labour in <i>Lux</i> sector;
	3000 as basic consumption for employers and servants;
	2910 as material inputs to <i>Lux</i> sector.
Coal:	2400 as wage goods for labour in <i>Lux</i> sector;
	1500 as basic consumption for employers and servants;
	1040 as material inputs to <i>Lux</i> sector.
Corn:	9600 as wage goods for labour in <i>Lux</i> sector;
	6000 as basic consumption for employers and servants;
	2000 as material inputs to <i>Lux</i> sector.
Trans:	2400 as wage goods for labour in <i>Lux</i> sector;
	1500 as basic consumption for employers and servants;
	1400 as inputs to <i>Lux</i> sector.

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It is evident that the work of the 1,400 labour employed in the basic sector is of the highest importance to the rest of the community (in number equivalent to another 3,900 labour). While the basic sector is self-sustaining, the 2,400 labour in the luxury sector, plus the 1,000 domestic servants – not to mention the 500 employers – are vitally dependent on what is supplied from the basic sector; none of these groups could survive without the that sector's contribution.

It is the productivity of the basic sector – its ability to produce a surplus of its particular products over its own need for them – that determines the surplus-producing capability of the economy as a whole. The system's ability to accumulate capital, and its ability to support all sorts of non-productive activities, are governed by the availability from the basic sector of a sufficient supply of essential materials of production and means of subsistence. The particular make-up or form which the surplus product of the economy actually takes depends on how the available surplus of basics is deployed between the possible alternatives.

In the case of our illustrative economy (see Table 3), the surplus of basics is used to “put into motion” labour in the luxury sector, as well as directly supporting the servants and their masters. In the situation represented, the surplus-producing capability of the system as a whole is thus directed solely to meeting the needs and desires of the employing class. *That particular way of utilising the basic surplus may do a lot for the comfort of that class, but doesn’t do anything for the growth of the economy. If growth is wanted, a different deployment of the surplus is essential – it must be used to “put into motion” more “productive” labour – labour applied in other, more appropriate, activities.* If some of the household servants were re-employed on construction work – building roads or harbours – their diversion to the creation of useful infrastructure could foster economic progress. Again, by switching luxury workers to the manufacture of producers’ goods, the community’s stock of productive assets could be increased. The point is that, in so far as there is scope for different deployments of the surplus of basic goods, the prospects for an economy can be very different. Smith, it will be recalled, was vehement in his condemnation of the squandering of resources by individuals or governments, and emphatic in his advocacy of applying surplus income instead to building up the community’s resources.

This takes us back to Adam Smith. One interpretation of “productive labour” of which, we believe, Smith had an intuition, corresponds to the labour which in a Sraffa-type system is engaged in the production of basic goods. If we apply here the “basic goods” criterion of productive labour, the 1400 labour employed in the iron, coal, corn and transport sectors qualify as “productive”. The remaining industrial workers, the 2400 in the luxury sector, do not rate as productive in terms of basic goods production, but do so as producers of surplus value. The 1000 servants fail on both counts and fall into the unproductive category.

Adam Smith believed there was cause to judge labour “productive” both by what we have called the “surplus value” criterion and by the “basic goods” criterion. We have suggested that he sought to take both criteria on board in that both these properties of labour are of fundamental importance for the achievement of economic growth. Smith, we suggest, may be understood to designate as “productive” all labour which produces a useful surplus, whether in terms of money or basic goods, a surplus which has the potential to advance the accumulation of capital. We think that makes sense.