

VIEWPOINT:

Adam Smith on migration

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Abstract

Adam Smith considered poverty and unemployment as push factors for migration and wages high enough to provide for a worker and his family as a pull factor. Migration as a free mobility of labour leads to an optimal allocation of the factor commodity labour as well as changes of employment which necessary to equalise wages between different geographical entities. The consequences are not only promoting economic growth and prosperity, but also reducing poverty. Smith has no contemporary empirical support for his theory.

Keywords: migration theory, wages, unemployment, poverty

Introduction

The first economic theory trying to explain labour migration was, according to Zlotnik, constructed by Adam Smith. By dismantling barriers – in the form of Settlement Act and Poor Laws – a free circulation of labour would be possible. This would lead to (a) labour moving from low-wage areas to high-wages areas which would reduce the bottlenecks in the areas of destination and stimulate an economic rationalisation of production in the areas of origin, and (b) persons, who were unable to feed themselves where they presently resided, would be able to reallocate to an area where they could find a job (Zlotnik 2005:293). Smith considered labour as any other factor commodity; the mobility of labour should not be limited by national borders (Hollander 1973:258-261).

Smith assumed that there is a perfect mobility of labour between different occupations and that the labour market is perfectly competitive (Blaug 1962:48). He also realised that there must be some sort of inertia and of attachment to locality relating to the risk and cost of moving (Hollander 1973:262). What this inertia consists of is not analysed, nor is the assumption of perfect competition at the labour market.

Kindleberger argues that Adam Smith, in general, did not study the empirical world around him; he was a literary economist who drew his examples from books. When he does go into the real world, he occasionally makes a slip (Kindleberger 1976:6). Drawing examples from books to make abstract systems and theories makes Smith unique; previous economists

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tried to explain how things were, but Smith tried to explain how things ought to be (Backhouse 1991:13, Blaug 1994:52f.). By doing this, Smith revolutionised economic thinking (Roll 1992:128).

Furthermore, there are also major differences in how we consider the working of the labour market and wage-setting today compared to Adam Smith's time (Phelps-Brown 1976:254). These aspects motivate an appraisal and review of what Adam Smith had to say about migration.

The purpose of this paper is to discuss Adam Smith's view on migration. This paper proposes to answer the following questions: (1) what are the causes and consequences of migration, and (2) is there any empirical support for Smith's view on migration?

Mobility and migration

Adam Smith never explicitly discussed migration, but the free mobility and circulation of labour in both geographical as well as occupational terms (e.g. Smith 2000:156, 162). Since people did not commute, but worked where they lived, the free circulation of labour Smith advocated meant that the labour should not be hindered to move from one location to another. Such reallocation of labour is today considered as migration (Zlotnik 2005:293). In this paper Smith's thoughts on free mobility of labour in geographical terms are considered as migration.

Causes of migration

A person without a job will have no income, and without income this person cannot provide for himself and his family (Smith 2000:76f.). A person can however have incomes, but still being unable to make a living from that income. If the wage is insufficient to provide for the worker and his family, the labourer had to rely on poor relief (Smith 2000:156).

If a worker could change employer or profession, or move geographically, he would be able to improve his situation. Apprenticeship and corporation privileges however obstruct circulation from employment to employment and from place to place. The circulation of labour is further obstructed by the Poor Laws, which prevent poor persons from moving from one parish to another and thereby burdening the parish of destination. With indignation, Smith concludes that "It is every-where much easier for a wealthy merchant to obtain the privilege of trading in a town corporate, than for a poor artificer to obtain that of working in it" (Smith 2000:156).

Smith considers poverty to be the major push factor in the migration process (Smith 2000:156). The inability for a worker to feed himself, and his family, in combination with restrictions on what profession he could do and for which employer he was allowed to work, imposed by the apprenticeship regulations and corporation privileges, left this worker with four alternatives: (1) to migrate, (2) accept the poor relief provided by the parish, (3) start stealing and thereby becoming an outlaw, or (4) to die. The first option

meant, at the time Adam Smith wrote his “Wealth of Nations”, in reality to *emigrate* since the Poor Laws restricted the domestic settlement rights for poor persons and their rights to exercise their profession outside their home parish. Most persons, at this time, would, in this situation, accept the poor relief provided by the parish.

On the pull-side factors, Smith mentions the wish of every person to provide for himself and his family is a strong motive for migration (Smith 2000:77, 156, 162). While most people feel sympathy, pity and compassion for other persons, for their joys in life as well for their sorrow, Smith noticed that the poor receives none of this which is a corruption of our moral sentiments (Rauhut 2005:23f.). Even if a poor person manages to provide for himself again, our feelings towards that person will not change.

A second pull-side factor is wages. In North America, the wages of labour are much higher than in any part of England (Smith 2000:80). Why are the wages so important? Smith’s answer is that wages promote incentives for labour to work harder (Smith 2000:93).

Consequences of migration

A free mobility of labour, *i.e.* between professions and employers as well as geographically, will lead to an optimal allocation of labour in line with Smith’s idea of division of labour (Smith 2000:156). A free competition at the factor market would establish an optimum allocation of the resources between industries and equalise the net advantages of factors in all industries (Blaug 1962:58). In Smith’s reasoning it is not clear if the equalisation of net advantages only refers to Britain (Smith 2000:162).

A second consequence of migration refers to poverty. The result of non-mobility of labour is that persons will remain caught in poverty, *i.e.* unless they die, emigrate or become criminals. If a free mobility of labour the same person would increase his possibilities to provide for himself and his family by changing profession, employer, geographical location or a combination of them. In line with this reasoning, a free mobility of labour, including domestic migration, can be assumed to mitigate poverty (Rauhut 2005:27, 31).

The restrictions in mobility deprive a person the right of feeding himself and provide for his family. Instead, he is forced to come upon the parish. He could change his situation if he was allowed to move to another parish where labour is needed, but he is not. He is forced to remain poor. Since the wealth of a nation depends on the aggregate wealth of its members, “[n]o society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable” (Smith 2000:90).

Furthermore, economic growth, leading to prosperity, will be the result of a free market economy. In such economy labour is allowed to move freely. Smith stresses that is not in the wealthiest countries where the highest wages are found, but in the countries with the fastest growing economies (Smith 2000:81ff.). Higher wages and higher profits follow economic growth,

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and if the wages are rising away from the subsistence level, fewer people will face poverty (Sowell 1974:34, Rauhut 2005:35). Smith believed that economic progress meant new technology, which would increase employment and raise the wages (Schumpeter 1954:270f.).

The Industrial Revolution and mobility of labour

Adam Smith wrote *Wealth of Nation* at the same time as the industrial revolution was about to start. It has been debated on whether Smith was aware of the industrial revolution or not in his writings, but in either case the context in which Smith did his writings must have affected his work (Kindleberger 1976:24). According to Collision Black (1976:53) early industrialism influenced Smith and his theories; his theories are highly contextual and need to be modified when applied elsewhere. Alas, sometimes the modifications have been quite extensive and hence biased the view of Adam Smith and theories by myths and stereotypes, Sowell (1974) complaints. "Everyone has heard of the classical economists' social conservatism, blind faith in the market, denials of depression, and dismal prognoses of subsistence wages. These have become as axiomatic in the literature as they are grossly inaccurate in fact" (Sowell 1974: 3). The misinterpretations of Adam Smith have also been illuminated in the commendable and perspicacious analyses by the 1998 Nobel Prize winner in Economics Amartya Sen (1999).

Little skills were needed in the early phase of the industrial revolution and the required capital to start was, in relative terms, small (except for the building of railways). The new technologies using steam, improving mining coal, smelting pig iron and making textile set off the industrial revolution. These technologies were ingenious, but simple. They were easy to apply and required little skills of the labour to operate them, states Lewis (1976:137). This created a demand for unskilled labour in the towns and cities (Mokyr 1985:6). At the same time the demand for labour had decreased in agriculture due to the mechanisation and commercialisation of the agriculture in Britain (Crafts 1985:161ff.).

Commercialisation of the British agriculture started already in the 16th century and in the 17th century technological changes spread to agriculture; first, new crops and practices were introduced, and later a mechanisation of farming begun. After 1750 the enclosures was speeded up by the landlords to take advantage of the economies of scale which came with the new farming techniques. The result was that e.g. crofters, leaseholders, copyholders, and landless labourers were pushed from the countryside and agriculture (Rider 1995:161 ff). This created an excess supply of labour. Worth noting is that this coincides with Smith's writing of *Wealth of Nations*.

The key to modernisation lays in changing the agriculture and industry simultaneously (Lewis 1976:152). It was only in Britain where people could be driven off the land with such ease and pushed to the towns to seek employment in industry. This was caused by the enclosures (Pollard 1991:69).

Pollard also notices that during the 1780s an overwhelming majority of all domestic migration in Britain was headed for the industrial regions and towns. Most migrations in the second half of the 18th century were on short distances: to a town from the surrounding countryside. Yet, 1 million persons left the British Islands, usually headed for British colonies abroad, during the 18th century (Cameron 1997:232).

To Smith the Poor Laws, apprenticeships and corporation privileges hindered the mobility of labour (Smith 2000:156ff). Apprenticeships and corporation privileges did not apply in Scotland at all and in England they only applied in market towns, *i.e.* not in all towns. Smith's view must be questioned as mobility of labour actually was allowed. Furthermore, Smith thought it was impossible for any person to migrate from one parish to another. Parishes did not welcome migrants in the form of families because, as the parish perceived it, they most likely would need support. Young, able-bodied and single men were however generally allowed to stay until they married (Miller 1981:22). This enabled agricultural labourers to move between jobs and regions.

Why Smith's view diverges from the generally accepted view on the mobility of labour from the countryside to the towns at this time is puzzling and surprising. Is it one of Smith's "slips" when analysing the empirical world? Pollard argues that labour was the mobile factor commodity, contrary to land and regional industry. Labour was simply moved when demanded elsewhere, and this "[mislead] Adam Smith into his famous dictum that men were of all 'sorts of luggage the most difficult to be transported' " (Pollard 1991:151f.).

Information costs

There are costs related to migration which do not only include the transport of the belongings and funds to cover up for insufficient income while starting up business or finding a job somewhere else, but also the costs for obtaining information on vacancies and housing. How was information on vacancies spread during Smith's time? Usually from mouth-to-mouth, and this made the information unreliable: it could be false, exaggerated, outdated or untrue.

Since the towns were increasing their population rapidly housing was a problem and information on housing was usually only obtainable in the very city one was working. Most of the contemporary migration at the time Smith wrote *Wealth of Nations* was on short distances: to a town from the surrounding countryside (Cameron 1998:232). The shorter distance the easier it is to keep the transaction costs down, *i.e.* get information on jobs and housing.

The restrictions to change jobs (Smith 2000:156) also imposed high transaction costs in the form of inertia to mobility. Smith dislikes this institutional inertia (Rosenberg 1960:561), but he fails to see the logic behind it. If merchants or industrialists train labour to obtain the needed skills, even if

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not much skills were needed, to their business they do not want the labour to disappear as soon as they start becoming productive; training staff or labour cost money and of course the merchants or industrialists wanted to profit from their investments. The best way to do so is to restrict the possibility to change employer.

Equalisation of wages and unemployment¹

The technological development increased the value of the produced products, not only because less labour was needed in the production. With our modern view on what sets the wages, the higher wages in North America and Holland than in England at Smith's time can partly be explained by the mere fact that they produced goods of higher value (Landes 2000:344f., 506f.). Smith, however, fails to see this. The theoretical implications of this is e.g. that a region which mechanises its agriculture, transfers labour from agriculture to industry and increases its industrial production will experience increasing wages, especially in industry. Is this reasoning consistent with the empirical world? Well, at least partly. Immigrants sometimes came by the prospect for work, sometimes for higher, usually nominal, wages. They came because they were made redundant in agriculture or from occupations made redundant by new industry (Pollard 1991:35f.).

In Smith's thought that labour moving from low-wage areas to high-wages areas would lead to a equalisation of the wages in both the area of destination and origin and that the migration would reduce the bottlenecks in the areas of destination and stimulate an economic rationalisation of production in the areas of origin. Migration *per se* was the lubricant in this process.

There is a lack of empirical sources to analyse the development of wages in Britain during the 18th century. It is, however, well-documented that the wages in industry was higher than in agriculture, and the wages were higher in expanding industries than in declining industries. The agricultural labourers and persons who still were involved in the putting-out system on the countryside experienced low and declining real wages during the same time (Dillard 1988:214).

Although regional variations existed in the wage levels in 18th century Britain (Dillard 1988:214f.), there is no support for the hypothesis that a wage equalisation took place as a result of migration. The fragmented regional wage data which exists before 1810-1814 give few indications of real wage changes, according to Flinn (1974:408). Regional migration accounted for less than 3.6 per cent of the observed real wage gains 1781-1851, conclude Lindert & Williamson (1985:195).

¹ Migration is assumed to level out the differences in wages and unemployment in both the area of origin and of destination, i.e. an equalisation of wages and unemployment takes place. The factor price theorem stems from Ohlin (1933); Samuelson (1948, 1949) showed formally the circumstances under which they would actually become equal.

Smith never discusses the fact that a majority of the workers in the 18th century factories were under aged and orphans who were brought there from the poor houses. This labour was given food and housing, but no wages. The municipalities and parishes were able to keep down the taxes this way (Dillard 1988:216). The early industrialism also made working-class families more dependent on the earnings of children; the wages for women and children developed similar to those of men (Lindert & Williamson 1985:194).

How did migration influence the unemployment levels in agriculture and in the new emerging industry? There is no unemployment data before 1851. It is however common knowledge that seasonal unemployment was a huge problem (Lindert & Williamson 1985:190). Surely, there must have been regional variations in unemployment levels during Adam Smith's lifetime, but to what extent they were influenced by migration between regions is impossible to say.

Smith underestimated involuntary unemployment and cyclical unemployment in the towns. During hard times, unemployed industrial labourers could return to agriculture, thus become under-employed (Easterlin 1960:341, Miller 1981:24). Smith is silent on how this aggravated the already poor conditions for agricultural workers.

There is actually little, if any, support that migration should lead to an equalisation of wages in Smith's contemporary time and there is no data on unemployment for that time enabling empirical tests on Smith's hypothesis on a regional equalisation of unemployment due to migration.

Concluding remarks

Adam Smith considered poverty and unemployment as push factors for migration and higher wages to provide for a worker and his family as a pull factor. Migration, which is defined as free mobility of labour in Adam Smith's writings, leads to an optimal allocation of the factor commodity labour as well as changes of employment which are necessary to equalise wages and unemployment between different geographical entities.

Smith complained on the Poor Laws, apprenticeships and corporation privileges as obstacles for the mobility of labour. At the very same time labour was pushed from agriculture and pulled into industry, *i.e.* a migration process from the countryside to the towns. If Smith was aware of this process he drew wrong conclusions. Smith revolutionised economic thinking by not using empirical examples; instead of explaining how things were, he tried to explain how they should be. This methodology is still used today in political economics.

The main obstacles for hindering labour from moving freely according to Smith – the Poor Laws, apprenticeship and corporation privileges – appears to be, as discussed in this paper, not only incorrect, but too simple. Smith fails to include the transaction costs for moving from point A to point B; the

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costs for obtaining information on job prospects and housing as well as the costs for the transport of the belongings and funds to cover up for insufficient income while starting up business somewhere else were probably quite high. This must have deterred and discouraged presumptive migrants.

There is no unemployment data before 1851 which enables analyses of regional differences in unemployment, neither are the wage data sufficient enough to say something about regional wage differentials during Adam Smith's lifetime. The fragmented wage data which exist *does not* support Adam Smith's thought on regional wage equalisation as a consequence of migration. What is known regarding unemployment during his contemporary time is that the seasonal unemployment was high and that regional differences existed. To what extent migration could level this out is still unknown.

With no empirical evidence to back him up Smith constructed a theory of migration which, to large extent, is still applied today. His intellect and theoretical skills in economics put him far ahead of his time. To what extent the legacy of Smith's view on migration in the form of the neoclassical macro theory of migration can explain our contemporary migration flows is, however, a topic for another study.

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