Research Working Papers

Revisiting Adam Smith and the Division of Labor: New Evidence from U.S. Occupational Data, 1860–1940

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Historical U.S. data support Adam Smith's theory that market growth and innovation boost labor specialization and productivity.

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Using novel occupational data from the U.S. between 1860 and 1940, we evaluate three of Adam Smith's core propositions about the relationship between the division of labor, market size, innovation, and productivity. We first document significant growth in occupational diversity during this period using new measures of occupational specialization that we construct from workers' self-reported job titles in the decennial Census. Consistent with Smith's hypotheses, we find strong empirical evidence that occupational specialization increases with the extent of the market, is facilitated by technological innovation, and is ultimately associated with higher labor productivity. Our findings also extend Smith's narrative by highlighting the role of organizational changes and innovation spillovers during the Second Industrial Revolution. These results speak to the enduring relevance of Smith's insights in the context of an industrializing economy characterized by large firms, complex organizational structures, and rapid technological change.

JEL classifications: N11, O14, J24, D24.

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