On self-interest in Adam Smith’s *The Wealth of Nations*

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Mathematics and models have become the bulk of modern economic theories; the subject has transformed greatly since Adam Smith proposed his ideas in *The Wealth of Nations* more than two centuries ago. However, though economists strive to adhere more and more closely to the objectivity and impartiality of the scientific process, perhaps it is always useful to reconsider the very roots of economics: human nature. Economic theories tend to assume that humans are rational and self-interested, yet one cannot simply ignore human kindness, and it may be possible to reconsolidate the two seemingly contrasting elements.

Such considerations cannot proceed without considering the fundamentally humane aspect of economics. This essay focuses firstly on the implications of self-interest in Adam Smith’s *The Wealth of Nations*. Then, the essay considers interpretations of self-interest and allusions to altruism. Finally, the essay will give some brief examples of the history of Chinese economic thoughts, to make some comparisons to Smith’s ideas and to determine any differences or similarities in the discussion of human nature in economics.

The definitions of self-interest and altruism are difficult to determine, and the amount of philosophical considerations for these concepts alone is too vast for this essay to account for. Therefore, the essay will consider self-interest and altruism in the most basic of senses: self-interest is defined as the regard for one’s own well-being and the disregard for that of others, and altruism is defined as the regard for others’ well-being and the disregard for one’s own.

In *The Wealth of Nations*, Smith presents a framework to explain the opulence of certain countries; the key element of Smith’s ideas revolves around the idea of “self-love” (Smith, 1776/1994, p.15). Smith argues that it is self-love which motivates economic activity. To quote Smith (1776/1994):

> It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of the benevolence of his fellow-citizens. (p.15)

Smith makes it clear that self-interest is the main reason for barter and exchange. One does not produce and barter solely for the sake of others – the desire to work and produce is derived from the desire to consume.

However, rather than plunging the nations’ economies into eternal demise, self-interest plays a role in increasing the efficiency of production. Indirectly, Smith’s empirical observation of the division of labour, and later Ricardo’s theory of comparative advantage, stems very much from the desire to consume,
motivated by self-interest. It is clear from Smith (1776/1994) that division of labour increases production, with his example of the “pin-maker” (pp. 4-5) and the “three different circumstances” (p. 7-10) which underlie the division of labour. As such, with the increased production of real goods comes prosperity – motivated by people’s self-interest and insatiable desire.

More interestingly, however, Smith refers to division of labour as exclusive to the race of men alone. To quote:

Whether this propensity be one of those original principles in human nature of which no further account can be given… It is common to all men, and to be found in no other race of animals, which seem to know neither this nor any other species of contracts. (p. 14)

Indeed, it is untrue that only men divide labour; colonial living organisms, such as ants and bees, are capable of organisation and division of labour. Nevertheless, the comparison between humans and animals of other races is interesting in a sense that Smith suggests that human nature is different, and perhaps more complex, than the nature of other animals. To quote Smith (1776/1994):

In almost every other race of animals each individual, when it is grown up to maturity, is entirely independent… but man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. (p. 14)

Smith believes that the act co-operation between people stems from self-love. In a civilised society, people understand that they need assistance from each other, and people cannot expect others’ assistance purely out of their kindness. Moreover, Smith emphasises also the role of human interaction and communication, again demonstrating how it is possible for self-interest to co-exist within communities, and that it does not isolate one another; it is necessary to satisfy the interest of others in order for others to satisfy one’s own interests. In short, self-interest forms a symbiotic relationship between every member of the society.

In addition, Smith interprets this relationship between self-interest and co-operation with his proposition of the invisible hand. Smith (1776/1994) claims that:

… he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. (p. 485)
Smith does not explain the nature of the invisible hand; he only implies that something binds self-interest and public interest so that those who pursue their own interests will inadvertently benefit the society as a whole.

In essence, Smith’s idea of self-interest is constructive more than destructive – a complete contrast to the state of nature presented by Thomas Hobbes (1651/1998) in his discussion of *bellum omnium contra omnes* (“the war of all against all”) in *Leviathan*. In general, Hobbes presents people as destructive members of the society who, in the quest for their own well-being, will cause social unrest by competition, thereby justifying the need of social contract. In the context of Smith, people understand the mutual benefit consequent of co-operation; people will ultimately bind, rather than divide, for their own benefit.

Smith’s assumption of self-interest sets up such convincing arguments of how the wealth of nations has come to be, but does this imply that all individuals within the economy are purely self-interested and lack regard of others? Fleischacker (2004) proposes that many people take self-interest in *The Wealth of Nations* out of context of Smith’s reasoning, so that people often hold the false belief that Smith did not believe in altruism.

In Smith’s other *magnum opus*, *The Theory of Moral Sentiments*, he makes clear that “the whole account of human nature… which deduces all sentiments and affections from self-love, which has made so much noise in the world… seems to [Smith] to have arisen from some confused misapprehension of the system of sympathy” (as cited in Fleischacker, 2004, p. 101). Here, Smith argues that self-interest is not the only source of human sentiments, and so it is foolish to assume so.

If the aforementioned is what Smith believes, then why is self-interest largely emphasised in *The Wealth of Nations*? To answer this question, one must consider the context of *The Wealth of Nations*. Fleischacker (2004) notes that *The Wealth of Nations* was originally intended for politicians, and so Smith attempts to analyse the economy objectively and systematically – although according Robbins (1998), *The Wealth of Nations* “is not wholly or nearly scientific” (p. 128). The context of *The Wealth of Nations* is, nevertheless, mainly applicable to the analysis of markets. Smith argues that self-interest is the core driving force for markets to thrive, yet he does not mention that it alone is definitive of human nature. After all, Smith argues that one satisfies one’s own desire through barter and trade, and not theft or other forms of crime. This implicitly suggests that people are perhaps guided by certain principles (moral, judicial or otherwise), which Smith does not detail in *The Wealth of Nations*.

In fact, some economists argue that Smith considers altruism “an extremely unreliable guide to moral behaviour” (Ashraf, Camerer & Loewenstein, 2005, p. 135). Specifically, sympathy takes away the objectivity and impartiality, which are necessary for markets to function. And as Fleischacker (2004) proposes, “Smith’s main worry… is about cognition rather than motivation” (p. 98), meaning that Smith is
solely concerned about the mechanics of the economy, and so it would be inappropriate to over-extrapolate self-interest and take it out of the context of *The Wealth of Nations*.

Fleischacker (2004) also proposes that it is not clear whether self-interest is entirely a necessary assumption altogether, as he argues that participants in the market must not be interested in their trading partners, but they need not be interested in themselves. Perhaps this is true to a certain extent, yet it is important to consider that market mechanisms such as prices and the law of demand depend upon the rationality assumption. Nevertheless, since Smith mainly focusses on the supply side of the market, and not the benefit derived from demand, he does not consider self-interest and rationality in the entire same sense as how modern economists tend to.

So far, this essay has only considered self-interest as an impartial tool, and thus altruism and sympathy are excluded in economic analysis. However, it is not entirely possible to ignore the notion of altruism in the world, for how else can one possibly explain charities and volunteer work such as Médecins Sans Frontières? The simple and intuitive answer would be to ignore such questions in economic analysis, as they are not in the context of the economic system in question. However, there is an alternative framework which one may consider, stemming from a concept which Smith briefly alludes to in *The Wealth of Nations*.

According to Smith (1776/1994):

> An augmentation of fortune is the means by which the greater part of men propose and wish to better their condition. It is the means the most vulgar and the most obvious. (p. 372)

Smith suggests that most people who seek to improve their conditions (implicitly exhibiting the trait of self-interest) seek to increase their fortunes. However, by his use of the superlative “the most vulgar”, Smith also suggests that seeking fortune is not the only way which people “better their condition”, so to speak. In *The Theory of Moral Sentiments*, Smith claims that “the wise and virtuous man” will always be willing to sacrifice his private interest to a greater public interest (as cited in Fleischacker, 2004, p. 101). This concept of altruism is explored by psychologist Abraham Maslow (1943), in his model of humans’ hierarchy of needs, where once the basic needs of humans are satisfied, people will turn to fulfil deeper, more inspired goals in life.

It is not possible to utilise Maslow to interpret *The Wealth of Nations*, mainly because Smith deals very little about immaterial satisfaction in *The Wealth of Nations*, as he emphasises the importance of production and productive capital for physical goods. In essence, Smith does not recognise the satisfaction derived
from service, at least not in *The Wealth of Nations*. (However, he deals with it more extensively in *The Theory of Moral Sentiments*.)

However, in modern economics, the concept of utility underlies microeconomic analysis, so perhaps it is possible to argue that altruism is part of utility. This does, however, contradict the assumption of self-interest. If altruism is seen as fulfilling self-interest, does that imply that altruism cannot exist, at least in the field of economics? Robbins (1998) points out that the notion of self-interest may be extended to the “enlarged conception of self or family or trust interest” (p. 133), yet simultaneously, Smith believes that sympathy (which underlies, but cannot fully explain altruism) is the “criteria of moral action” (p. 133), and Smith regards sympathy to be distinctly separate from self-interest (Young, 1997).

To end the discussion, the essay compares historical Chinese economic thought underlying human nature and self-interest. According to Hu (1984), the concept of human wants introduced by ancient Chinese philosophers is strikingly similar to that of Smith. The Confucian philosopher Xun Kuang separates human wants into two categories. The first is “natural needs”, which cannot be explained but everyone is born with it (Hu, 1984, p. 36), which is similar to Smith’s (1776/1994) description of desire, which “comes with us from the womb” (p. 372). The second category, Xun Kuang calls “demand” (Hu, 1984, p. 36), which involves judgement of how desire should be satisfied. Thus, Xun Kuang takes the concept of human wants to a more complex level, where desire and demand are not necessarily equivalent, and perhaps constrained by budget, moral grounds or other factors. Nevertheless, according to Hu, it is clear that there is rational thinking behind Xun Kuang’s definition of demand, which should be familiar to any economist.

The concept of self-interest in Chinese economic thought is also similar to that of Smith. In Chinese economics, self interest is “a common starting point for all economic discussions” (Hu, 1984, p. 39). In *The Book of Guan Zi* (as cited in Hu, 1984), it is clear that:

> It is human nature not to refrain from going after profit… so where there is profit, no mountain can remain unclimbed… Therefore, if a wise ruler takes advantage of this inclination to seek after profit, the people will naturally be well-satisfied and contented. They will go forward with nobody having to push them and come along with nobody having to pull them. And the ruler will have no worries and troubles, while the people will get rich spontaneously. (p. 39-40)

Furthermore, according to historian Sima Qian, “Wealth is something all men desire instinctively without having to be taught” (as cited in Hu, 1984, p. 40). Hence, both Chinese philosophers have summarised Smith’s arguments in *The Wealth of Nations* on the same basis of self-interest.

Also, Hu (1984) notes that both Chinese philosophers, Guan Zi and Sima Qian, favoured some degree of economic intervention while Smith, on the other hand, supports a more liberal economy (p. 41). Hu
attributes this to the “differences in historical conditions in which they lived” (p. 41). However, it is important to remember that Smith (1776/1994) does support intervention, especially where public goods are concerned, such as regulation of the financial markets.

In conclusion, Smith presents self-interest as a vital element of the market mechanism. It is clear that self-interest is the motivation of participants of the markets, necessary to effect barter and trade. However, it is important to consider *The Wealth of Nations* in context, as it is Smith’s attempt to analyse market system impartially and objectively, and in no way does Smith believe that self-interest alone defines human nature. In *The Theory of Moral Sentiments*, Smith in fact argues that people can be virtuous and selfless through sympathy, but perhaps this is not in the context which *The Wealth of Nations* is set. Finally, it is clear that the essence of self-interest and desire are not limited only to Smith’s discussion, but also prominently featured in Chinese economic and philosophical thoughts, although some historical or cultural differences may have affected the conclusions which are derived from a similar analysis. Thus, economics is able to impartially and adequately analyse human behaviours, as the crucial assumption of self-interest appears to be universal and to hold almost with complete certainty.

**Postscript**

Hopefully, this essay is able to hint at, if not illustrate, the significance of the history of economic thought and philosophical thoughts in economics. As with any other field of study, epistemology plays an important part of how knowledge has come to be. In economics, where assumptions play a crucial part, and so economists must consider the extent to which these assumptions model human nature.
References


