

Adam smith: self-interest



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According to Adam Smith, self-interest should not be denied. In the 'Wealth of Nations', he asserts that self-interest in the market is to encourage the growth of society through the division of labour and the maximization of wealth. For him, self-interest is enough to motivate the exchange of goods. The butcher-brewer-baker example (p. 19) says that their willingness to offer us a meal is dependent upon their own interests, not their kindness. Coase agrees in principle, stating (p. 534) that the force of benevolence is weakened when the connection between people becomes casual.

Specifically, when we have loose relations with suppliers, we should never talk to them of our own needs but instead of how they can benefit from what we offer them, for example, how much we will pay for a meal. In this way, Smith says (p. 19) that an offer means: if you give me what I want, you will get what you need in return. So, when two parties decide to trade, they offer what they have to exchange for something they desire and were previously lacking. As a market is able to operate when parties engage in exchange, people are thus motivated primarily by self-interest. In the 'Wealth of Nations', Adam Smith also shows (p. 8) that the division of labour in the operation of the market is a consequence of a certain propensity of human nature: the propensity to truck, barter, and exchange one thing for another. When the initial conspicuous division of labour shows efficiencies and surpluses, men struggling to produce everything independently will specialize, focusing on producing one thing and exchanging it for other goods or services which they require. As Coase says (p. 529), for Smith, self-interest is certainly a powerful motive in human behaviour. It is thus the

desire to trade for more things and gain more surpluses that encourages the division of labour.

Furthermore, the division of labour stimulates the efficiency of the operation of the market, as seen in Adam Smith's example of pin makers (p. 11). He states that an uneducated workman with his utmost intelligence may only make one or at most two pins in a day. By contrast, if the work is divided into several branches, and each person focuses on one part, many more pins will be made in the same amount of time. By increasing productivity, Adam Smith says that the division of labour increases the wealth of a particular society and increases the living standard of its people, even of the poorest.

Consequently, the system of specialization is impossible if human beings do not have the propensity to trade for greater profits. Hence, self-interest consolidates the existence of the division of labour and contributes to the greatest improvements in the productive powers of labour. According to Adam Smith, self-interest is the root cause of the existence of exchange and the division of labour in the operation of the market. Because of the motivation of self-interest, labourers work hard to maximize their own wealth by exchanging items and they specialize in branches of work to stimulate the efficiencies and surpluses of the operation.