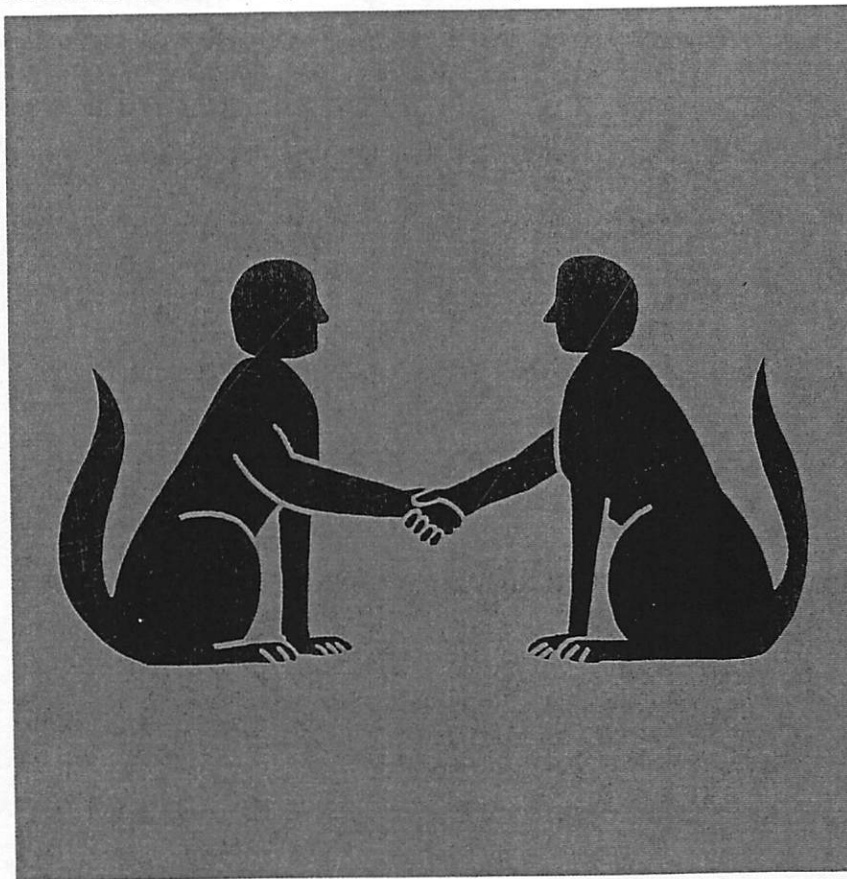


MAN IS AN ANIMAL THAT MAKES BARGAINS

ADAM SMITH (1723–1790)



IN CONTEXT

BRANCH

Political philosophy

APPROACH

Classical economics

BEFORE

c.350 BCE Aristotle emphasizes the importance of domestic production ("economy") and explains the role of money.

Early 1700s Dutch thinker Bernard Mandeville argues that selfish actions can lead indirectly to socially desirable consequences.

AFTER

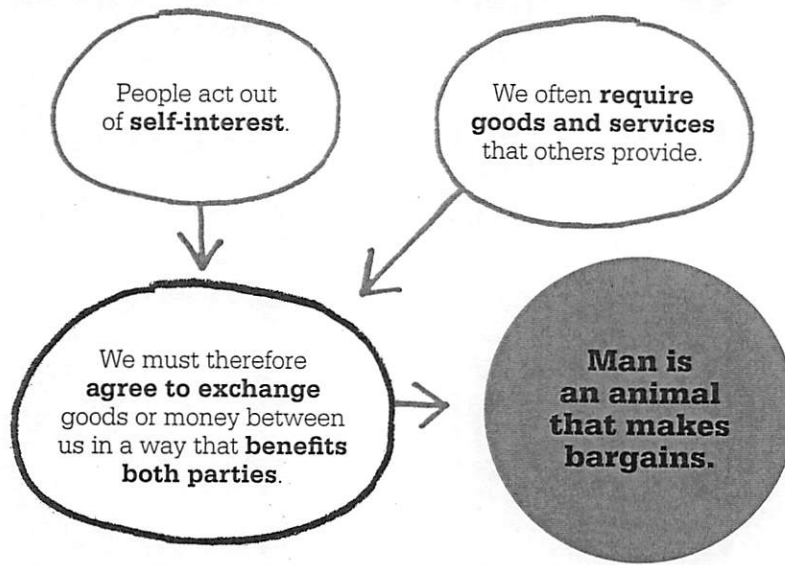
1850s British writer John Ruskin argues that Smith's views are too materialistic and therefore anti-Christian.

1940s onward Philosophers apply the idea of bargaining throughout the social sciences as a model for explaining human behavior.

Scottish writer Adam Smith is often considered the most important economist the world has ever known. The concepts of bargaining and self-interest that he explored, and the possibility of different types of agreements and interests—such as "the common interest"—are of recurring appeal to philosophers. His writings are also important because they give a more general and abstract form to the idea of the "commercial" society that was developed by his friend David Hume.

Like his Swiss contemporary, Jean-Jacques Rousseau, Smith assumes that the motives of human beings are partly benevolent and

See also: David Hume 148–53 ■ Jean-Jacques Rousseau 154–59 ■ Edmund Burke 172–73 ■ Karl Marx 196–203 ■ Noam Chomsky 304–05



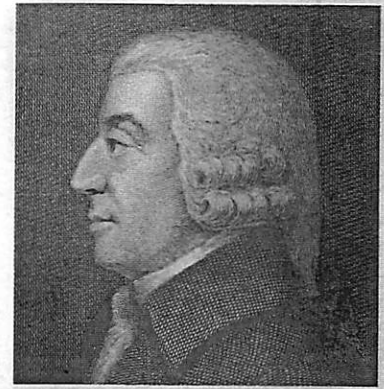
partly self-interested, but that self-interest is the stronger trait and so is a better guide to human behavior. He believes that this can be confirmed by social observation, and so, broadly speaking, his approach is an empirical one. In one of his most famous discussions of the psychology of bargaining, he contends that the most frequent opening gambit in a bargain is for one party to urge the other—"the best way for you to get what you want is for you to give me what I want." In other words, "we address ourselves, not to [another's] humanity, but to their self-love."

Smith goes on to claim that the exchange of useful objects is a distinctively human characteristic. He notes that dogs are never observed exchanging bones, and that should an animal wish to obtain something, the only way it can do so is to "gain the favor of those whose service it requires". Humans may also depend on this sort of "fawning or servile attention", but they cannot resort to it whenever

they need help, because life requires "the cooperation and assistance of great multitudes." For example, to stay comfortably at an inn for a night we require the input of many people—to cook and serve the food, to prepare the room and so on—none of whose services can be depended on through good will alone. For this reason, "man is an animal that makes bargains"—and the bargain is struck by proposing a deal that appears to be in the self-interest of both parties.

The division of labor

In his account of the emergence of market economies, Smith argues that our ability to make bargains put an end to the once universal requirement that every person, or at least every family, be economically self-sufficient. Thanks to bargaining, it became possible for us to concentrate on producing fewer and fewer goods, and ultimately to produce just a single good, or offer a single service, and to exchange this for everything »



Adam Smith

The "father of modern economics" was born in Kirkcaldy, Fife, in 1723. An academic prodigy, Smith became a professor first at Edinburgh University, then at Glasgow University where he became a professor in 1750. In the 1760s, he took a lucrative job as a personal tutor to a young Scottish aristocrat, Henry Scott, with whom he visited France and Switzerland.

Already acquainted with David Hume and other Scottish Enlightenment thinkers, he seized the chance to meet leading figures of the European Enlightenment as well. On his return to Scotland, he spent a decade writing *The Wealth of Nations*, before returning to public service as Commissioner of Customs, a position that allowed him to advise the British government on various economic policies. In 1787, he rejoined Glasgow University, and spent the last three years of his life as its rector.

Key works

1759 *The Theory of Moral Sentiments*

1776 *The Wealth of Nations*

1795 *Essays on Philosophical Subjects*

else we required. This process was revolutionized by the invention of money, which abolished the need to barter. From then on, in Smith's view, only those who were unable to work had to depend on charity. Everyone else could come to the marketplace to exchange their labor—or the money they earned through labor—for the products of other people's labor.

This elimination of the need to provide everything for ourselves led to the emergence of people with particular sets of skills (such as the baker and the carpenter), and then to what Smith calls a "division of labor" among workers. This is Smith's phrase for specialization, whereby an individual not only pursues a single type of work, but performs only a single task in a job that is shared by several people.

The market is the key to establishing an equitable society, in Smith's view. With the freedom provided by the buying and selling of goods, individuals can enjoy lives of "natural liberty."

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The greatest improvement in the productive powers of labor seem to have been the effects of the division of labor.

Adam Smith

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Civilized society stands at all times in need of the cooperation and assistance of great multitudes.

Adam Smith

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Smith illustrates the importance of specialization at the beginning of his masterpiece, *The Wealth of Nations*, by showing how the making of a humble metal pin is radically improved by adopting the factory system. Where one man working alone would find it hard to produce 20 perfect pins in a day, a group of 10 men, charged with different tasks—from drawing out the wire, straightening it, cutting

it, pointing it, and grinding it, to joining it to a pinhead—were able, in Smith's time, to produce over 48,000 pins a day.

Smith was impressed by the great improvements in the productivity of labor that took place during the Industrial Revolution—improvements that saw workers provided with much better equipment, and often saw machines replacing workers.



The jack-of-all-trades could not survive in such a system, and even philosophers began to specialize in the various branches of their subject, such as logic, ethics, epistemology, and metaphysics.

The free market

Because the division of labor increases productivity and makes it possible for everyone to be eligible for some kind of work (since it frees us from training in a craft), Smith argues that it can lead to universal wealth in a well-ordered society. Indeed, he says that in conditions of perfect liberty, the market can lead to a state of perfect equality—one in which everyone is free to pursue his own interests in his own way, so long as it accords with the laws of justice. And by equality Smith is not referring to equality of opportunity, but to equality of condition. In other words, his goal is the creation of a society not divided by competitiveness, but drawn together by bargaining based on mutual self-interest.

Smith's point, therefore, is not that people should have freedom just because they deserve it. His point is that society as a whole benefits from individuals pursuing their own interests. For the "invisible hand" of the market, with its laws of supply and demand, regulates the amount of goods that are available, and prices them far more efficiently than any government could. Put simply, the pursuit of self-interest, far from being incompatible with an equitable society, is, in Smith's view, the only way of guaranteeing it.

In such a society, a government can limit itself to performing just a few essential functions, such as providing defense, criminal justice, and education, and taxes and duties can be reduced accordingly. And just as bargaining can flourish

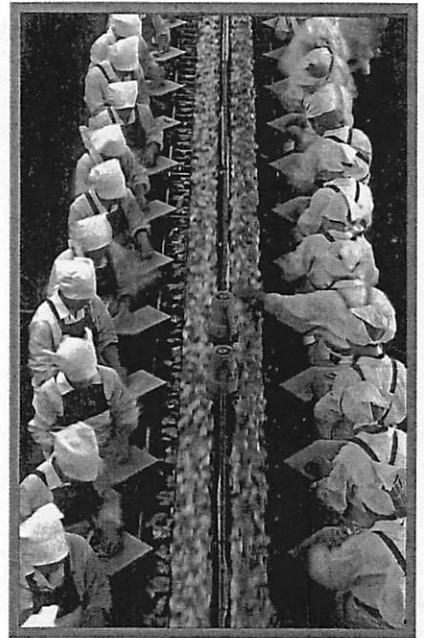
within national boundaries, so it can flourish across them, leading to international trade—a phenomenon that was spreading across the world in Smith's time.

Smith recognized that there were problems with the notion of a free market—in particular with the increasingly common bargain of wages for working time. He also acknowledged that while the division of labor had huge economic benefits, repetitive work is not only boring for the worker, it can destroy a human being—and for this reason he proposed that governments should restrict the extent to which the production line is used. Nevertheless, when *The Wealth of Nations* was first published, its doctrine of free and unregulated trade was seen as revolutionary, not only because of its attack on established commercial and agricultural privileges and monopolies, but also because of its argument that a nation's wealth depends not on its gold reserves, but on its labor—a view that went against all economic thinking in Europe at the time.

Smith's reputation for being a revolutionary was bolstered during the long debate about the nature of society that followed the French Revolution of 1789, prompting the mid-Victorian historian H.T. Buckle to describe *The Wealth of Nations* as "probably the most important book that has ever been written."

Smith's legacy

Critics have argued that Smith was wrong to assume that the "general interest" and "consumer interest" are the same, and that the free market is beneficial to all. What is true is that even though Smith was sympathetic toward the victims of poverty, he never fully succeeded in balancing the interests of producers



The production line is an incredible money-creating machine, but Smith warns against the dehumanizing effects it can have on workers if it is used without regulation.

and consumers within his social model, or integrating into it the domestic labor, performed mainly by women, that helped to keep society running efficiently.

For these reasons, and with the rise of socialism in the 19th century, Smith's reputation declined, but renewed interest in free market economics in the late 20th century saw a revival of Smith's ideas. Indeed, only today can we fully appreciate his most visionary claim—that a market is more than just a place. A market is a concept, and as such can exist anywhere—not only in a designated place such as a town square. This foreshadows the kind of "virtual" marketplace that only became possible with the advent of telecommunications technology. Today's financial markets and online trading bear witness to Smith's great vision. ■