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**THE CONCEPT OF SELF-INTEREST AND SOME
OF ITS ASPECTS IN ECONOMICS
THINKING AND POLICIES**

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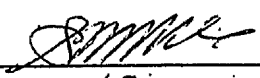
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THE CONCEPT OF SELF-INTEREST AND SOME OF ITS ASPECTS
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SECTION A

INTRODUCTION

I. A Refutation of Adam Smith's Mistake.

A recent trend that is gaining wide attention in economic analysis is the accounting of values, ideology and belief in economic problems. Among them, a very important value that economists and politicians alike are finding elusive to deal with is self-interest. In fact modern culture is pervaded by a taboo on selfishness. We are taught that to be selfish is sinful and that to love others is virtuous. To be sure, this doctrine is in flagrant contradiction to the practice of modern society, which holds the doctrine that the most powerful and legitimate drive in man is selfishness and that by following this imperative force the individual is driven to make his best contribution to the common good. But the doctrine which declares selfishness to be arch evil and love for others to be the greatest virtue is still powerful. Selfishness is used here more synonymously with self-love. The alternative is to love others, which is virtue or to love oneself which is a sin.

Man, human being in general, is always in constant conflict between self-interest and societal interest. Adam Smith seemed to have claimed that he had resolved this conflict when he made the following statement ...

*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 our self, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow citizen."*¹

Commentators who agree with this theory of self-interest praised Smith for this great contribution. They further asserted self-interest had indeed promoted economic growth and brought wealth to the nations. This is achieved through profit maximization objective. These people are further supposed to care about the environment, reducing as much pollution as possible. These behaviours are the result of natural drive born in man due to self-interest.

On the other side, those who disagree, criticized that human beings are also endowed with other characters such as benevolence, hatred, deceit, fraud, deligence, resilience,

¹Lux, Kenneth, *Adam Smith's Mistake*, (Shambhala: Boston & London, 1990) p.80.

honest, (just to name a few) which are also the natural instinct born in men. In fact history has full account of frauding, trespassing, deprivation and corruption; which are continuously happening until today. Self-interest which is supposed to contribute good to the society, is also promoting evils which are destroying society at the same time.

For this reason, Lux made the claim that Smith probably had made a mistake in making the above statement. Firstly Smith had transgressed his traditional values by stating that self-interest or selfishness brings social good, which in actual fact it does not.² Secondly an economy based on benevolence will consist of people akin to beggars and the affluents, for goods are given free and without exchange values. On the other hand, the self-interest based relationship of the baker-butcher indicates that goods are exchanged with values. This is similar to a market economy or a modern capitalist based economy.³ Thirdly, it is wrong to regard self-interest alone that promotes social good, because we cannot measure the degree of this self-interest.⁴ It can be for cheating or for honest work. Fourthly, the consequences of self-interest have seldom shown constructive results. It has also produced for example, pollution -

² Ibid., p.81.

³ Ibid., p.82.

⁴ Ibid., p82-3.

progressively destroying the natural environment with acid rain and ozone depletion.⁵ Fifthly, history has shown that social good is not due to self-interest but rather a standard outside self-interest, such as honesty, fairness, integrity, reasonableness and sense of justice.⁶ Sixthly, Smith had probably made a typing error whereby the word "only" missed before the statement ".....from the benevolence..."

More important than this, Lux claimed that Smith had made a serious mistake by equating self-interest with benevolence which Lux considered a transvaluation of moral principles from its continuum. Such transvaluation is the root cause of moral confusion, and in Confucius thought is similar to mislabel which will led to immorality.⁷

If we were to study the "Wealth of Nation" seriously, we could note that according to Adam Smith human conduct is actuated by six motives: self-love, sympathy, the desire to be free, a sense of propriety, a habit of labour and the propensity to truck, barter and exchange one thing for another.⁸ The central crux of the concept of self-interest lies in the ethics of human behaviour or conduct.⁹ If we

⁵ Ibid., p.84-5.

⁶ Ibid., p.86-7.

⁷ Ibid., p.91-2.

⁸ Roll, Eric, *A History of Economic Thought*, (Faber and Faber Ltd.:London, 1953) p.146.

⁹ *The New Palgrave: A Dictionary of Economics*, Vol.4, (London: The Macmillan Press Limited, 1987) p.297-299.

take self-interest to mean "a concern over one's self, i.e. selfishness" then man will further common good in order to strive own wishes; for the ultimate objectives of a person may be strongly altruistic.¹⁰ However if self-interest means " extreme desires over one own self" to the extent that other peoples' interests are suppressed,¹¹ then Lux is right to say Smith had made a mistake.

In the following discussion we shall elaborate on how the concept of self-interest has played a significant role in the economy.

II. The Objective and Scope of Study.

It is the objective of this paper to show that self-interest is an inevitable and necessary but not a sufficient condition for economic success. In so doing we hope to be able to potray the elements of self-interest that are inherent in any dynamic economy.

¹⁰Wilson, Thomas, Sympathy and Self-interest, in The Market and The State; Essays in Honour of Adam Smith, edited by Thomas Wilson and Andrew S.Skinner, (Oxford: Clarendon Press, 1978) p.78-85.

¹¹The Oxford English Dictionary, Second Edition, Vol.XIV, (Oxford: Clerendon Press, 1989) p.923-924.

A necessary condition means the result will not occur if the condition is not fulfilled. For example P constitutes a necessary condition for Q, if the absence of event P will not lead to event Q happening. But when P is not sufficient for event Q, that means other conditions may be necessary for event Q to occur. For example a CGPA of at least 2.0 is necessary and sufficient for graduation. Failure to achieve a CGPA of 2.0 will not allow the student to graduate. However achieving a CGPA of 2.0 or more does not guarantee graduation as other requirements such as clean disciplinary records are also required.

In our dynamic economy of today, self-interest has been regarded as the underlying values, the necessary condition for a meaningful and comprehensive progress. The majority of developed and developing nations are in dire need of healthy and happy living conditions, but they are either internally (within their selves) or externally (the environment) being suppressed.¹² The self-interest so far defined is the type that meet Adam Smith vision of the free-market, which in our case fulfills the necessary but not the sufficient condition for a progressed economy. The plight of the third world or developing nations is more serious than a progressive economy, including a meaningful life for

¹²Li-teh Sum, *Inner Equilibrium and Economic Equilibrium : A Confucian Complement to Economic Man*, International Review of Economics and Ethics, Vol.2, no.3, 1987, p.40-50.

future generations. A progressive and dynamic economy implies an economy that maintains a good, happy and ecologically sound and healthy society, despite the innovation and technological improvements.¹³

In section B, we intend to focus on the dominance of self-interest in economic thought. Although it is a second best solution as exemplified by the logic of prisoner's dilemma, nevertheless it is necessary for economic growth and welfare. The role of self-interest in modern economies for development will be highlighted, with the issues of privatisation, liberalism, trade blocks and environments. Thus section C will focus on the values other than self-interest which are required to meet the necessary and sufficient conditions to bring success to the economy. The Islamic values will be focused. The paper will conclude with a note on needed qualifications to limit the scope of self-interest especially for the third world countries in their quest for Economic development and progress as equal partners in world affairs especially in the light of the recent global environmental issues discussed at the Rio Convention.

¹³This is infact a global problem.

SECTION B

THE CONCEPT AND SOME ASPECTS

I. The Dominance of Self-interest in Economic Thought.

The idea that economic man is self-interest¹⁴ and rational goes back to Adam Smith, who saw the economy as composed of a set of self-interest agents whose selfishness is checked by the competition of others.

*The desire of bettering our condition is a desire which though generally calm and dispassionate, comes with us from the womb and never leaves us until we go to the grave. In the whole interval which separates these two moments there is scarce perhaps a single instant in which any man is so perfectly and completely satisfied with his situation, as to be without any wish of alteration or improvement of any kind.*¹⁵

In fact this idea is influenced by earlier writers, who tried to solve the classic problem of self-interest and public-welfare.¹⁶

¹⁴ Modern economists regard it as the soul of modern economic man.

¹⁵ Adam Smith, *The Wealth of Nations*, Indianapolis: Liberty Classics, 1981, p.324-5.

¹⁶ For detail elaboration of the ideas of self-interest since Thomas Hobbes until Adam Smith see Myers, Milton L., *The Soul of Modern Economic Man*, (London, Chicago: The University of Chicago Press, 1983).

The earlier thinkers, such as Hobbes, hold the notion that self-interest is one of the basic human motives (others include passion, selfishness, benevolence, etc.). It is like a force (motion) in the nature. In a zero-sum society¹⁷ without an authoritarian government, self-interest could lead only to self-destruction. With powerful authority (which these writers called it as Leviathan state) private property could be safeguarded, and self-interest is constrained and consequently public welfare is promoted.¹⁸

Among later economic thinkers who hold similar opinion as Hobbes is Lionel Robbins who says;

*The pursuit of self-interest unrestrained by suitable institutions, carries no guarantee of anything except chaos.*¹⁹

The unintended result of an individual's work achieved through the operation of invisible hand, due to self-interest motive, is the production of the largest possible social product of the economy. This idea of self-interest, which is considered as soul of modern economic man, has given rise to two modern concepts in economics.

¹⁷There will be only winner and loser, no sharing of loosing or profits, more discussions in later part.

¹⁸Ibid., Myers, p.86.

¹⁹Quoted from L.Robbins by J.A. Kregel, *Market Design and Competition as Constraint to Self-Interested Behaviour*, in Groenveld, Maks and Muysken (eds.) (North-Holland, 1990) p.45.

One, is the operation of invisible hand, has led to the formation of modern belief in laissez-faire economics. The general equilibrium which is the fundamental theorem of welfare economics is built from this belief. The theorem states that for a perfectly competitive market economy, satisfying certain assumptions, an equilibrium outcome will be reached. Such state of outcome is known as Pareto optimality; where all members of society will be better off or at least as well off as the outcome of a freely competitive market economy.²⁰

Recent writers have observed that the same invisible hand that maximizes the total social product can also lead individuals to evolve a wide variety of unintended social institutions that optimize social welfare.²¹ This spontaneous order of society is more likely to be consistent with individual liberty and productivity than any order that was centrally planned or controlled.

The second modern conception is that the pursuit of self-interest is considered rational, in the sense of abling to solve the implicit mathematical maximizing problems they face daily. This idea is found in the theory of utility developed by early microeconomists such as Jevons and Menger.

²⁰ Schotter, Andrew, *Free Market Economy: A Critical Appraisal*, (New York: St. Martin's Press, 1985) p.12.

²¹ Andrew Schotter, *The Economic theory of Social Institutions*, (New York: Cambridge University Press, 1981).

In order to develop the theory of demand, economists have to depict economic agents as striving to maximize their utility through the calculation of pleasure and pain by choosing the commodity bundle that are best for them. By equating utilities at the margin, economic man is depicted as rational automation whose role in life is to solve constrained maximization problems given fixed prices.²² Hence self-interest became the foundation stone to the concepts of rationality and maximization. However we must note that self-interest alone cannot guarantee that man will always achieve the desired maximum level of satisfaction or the Pareto optimal condition of the general equilibrium case or both. The foregoing section will discuss these problems.

²²Koutsoyiannis, A., **Modern Microeconomics**, London: The Macmillan Press, 1982, p.29.

II. The Second Best Solution.

Self-interest notion is perfectly applicable to zero-sum context of free-market economy. It enables to solve the problem of private property very well. In society of zero-sum, there is a dichotomy of winners and losers. The winners are symbols of profits and pride while the losers are defeats and hatred. The pursuit of self-interest in the competitive environment will open wide avenue for individual to try what ever means to gain maximum profit. Laws are regarded as constrain and hence bad morals are rampant. Such negative habits of bribes, self-indulgence, doubts and deprivation are difficult to abolish. In this situation public welfare is difficult to maintain, for public goods involve externalities, either production or consumption, where one's utility cannot be excluded from someone else utility.

This model of economy ignores the fact that man has habit, passion and appetite. Hence there will be cases where the element of self-interest cannot guarantee maximum satisfaction. The result from the pursuit of self-interest will be only self-defeating in all situations. This is the case of prisoner's dilemma²³, where he is always in defeating situation no matter what strategy he choses.

²³Detail illustration is in the Appendix I.

Eventhough the game is being repeated and the prisoners are allowed to correct the mistake made, the result seemed in favour of confessing.²⁴ Confessing is the dominant strategy, the strategy that produces better results no matter what strategy the opposing player does.

Similarly self-interest will result in self-defeat in the case of problem confronting oligopolists who are trying to collude,²⁵ as in the Appendix II. The payoffs to each firm depend on the combination of behaviours they choose, i.e. to abide by the agreement or to defect. Defection seems to be the dominant strategy as in the prisoner's case to confess. Note that when each firm defects, each does worse than if each had cooperated. In this situation the behaviour that is in the interest of each individual firm adds up to a result that is not in the interest of firms generally.

In another case, self-interest causes a reduction in social welfare, being illustrated in appendix III. In this situation the societies benefit most by the action of the landlords, however the actual outcome is different. Each individual's decision not to invest makes the society worse off. Similarly the bio-diversity and global warming issues of the environmentalist agenda at recent Rio meeting, are

²⁴ Frank, Robert H., *Microeconomics and Behavior*, (London: McGraw Hill, 1991) p.453.

²⁵ Ibid., p.452-4.

some of the deep seated problems of reduction in social welfare at the international level. If we go deeper into these problems we could note the cries of future generation as a result of the collapse of ecological system due to today's self-interest capitalists maximization desires. These are some of the non-optimal conditions due to non-cooperative of the self-interested behaviours.²⁶

The above cases, especially the prisoner's dilemma had been frequently used in economic arguments to illustrate the nature of inefficiencies of individual non-cooperative behaviour when the interdependence incorporates both congruence and conflict of interests in such a way that the combination of each person's dominant strategies produces an outcome that is inferior in terms of the goals of everyone in the group.

Attempts to resolve the problem by assuming temporal repetition of the game have not been easy, because it can be demonstrated with complete knowledge and standard optimizing behaviour, a finitely repeated Prisoner's dilemma will continue to produce the inferior outcome throughout.²⁷

²⁶ Op.Cit., Schotter, p.54-63.

²⁷ Op.Cit., Frank, p.457-9.

In the context of win-lose case of the zero-sum economy, there seems impossible to cooperate. The cooperation is only applicable in situation of win-win case. However reward and enforcement mechanisms seem to be good solutions to the prisoner's dilemma case. Reward mechanism imposes self-satisfaction and consciousness, while enforcement mechanism involves external powers such as laws or government regulations and controls.

III. The Contribution of Self-interest doctrine in Economic Planning and Development.

In the original capitalist view, self-interest is considered as engine of growth. It is asserted that self-interest brings in economic progress and growth as desired. America will not be as what she is now if not due to self-interest and the philosophy of pragmatism which is said to promote public welfare.

Self-interest has also been necessary for industrilization and development. However, in tracing the progress of economic development in Malaysia, several values have emerged. The traditional values are being slowly left out because they are considered, rightly or wrongly as inappropriate for the economic progress. Instead, the

values of the colonial masters in tandem with capitalist doctrine, have been internalised.

With the increasing role of private sector, i.e. the privatisation strategy, the position of self-interest increases in dominance. The individual must compete in order to achieve the desired end, notwithstanding the fact that the market does not appear to exhibit healthy and moral competition. As a result self-interest tends toward selfishness. This is marked by a wider gap between the rich and the poor, increased crime rate and underground economy (drugs and smuggling) to name a few.

An analysis made by Osman-Rani also find that self-interest of the culture of capitalist style, is the root-cause for the racial polarization in Malaysia.²⁸ This culture is being thought and engraved into Malaysian economy slowly through the economic planning strategies. The aim is to create as many Bumiputra entrepreneurs (the rich group) as possible, such that the economic activities are not distinguishable by the racial groups.²⁹ The development

²⁸ Osman-Rani, *Budaya Persaingan, Ekonomi dan Polarisasi Kaum di Malaysia*, in *Dasar Ekonomi Malaysia*, UKM Press, Bangi, 1989.

²⁹ The economy was once marked by each activity for one particular race, such that the Chinese work in town in business transaction (trading), the Indians worked in estates and Malays in padi productions. Income resulted from these activities are hence different, which has caused the May 13th, 1969 Racial Riots.

this far has noted the deepening dichotomy intra-races, which is somehow difficult to prove.³⁰ More serious than this, is the conflict between classes within the races, i.e. between the established class and the emerging (new) class. This conflict, if not being control at the early stage will one day burst into another riot.³¹

Development is always taken as a process of achieving a desired state of affairs. Among the trademarks for an developed economy is rapid capital accumulation, increased imported technology, high urbanization, complex industrial technology and consumer fetishism. These are all achieved through free-market process. Countries that are trapped in the Keynesian revolution, are now in the process of liberization, i.e. by de-nationalization, deregulation and other measures leading to "small-government" intervention in the market economy. Majority of the developing nations are in this process,³² and in fact this phenomena has become part of the development strategy. These are the ideas of developed nations of capitalists' culture; who are offering their hands to aid the less-developed ones to the levels of their standards. Their good intention is well appreciated. Nevertheless the by products of the activities of development projects have threatened the lives of the people

³⁰ Ibid., p:191-2.

³¹ Ibid., p:194.

³² Moyoko Kuroda, *Economic Liberalization and Suq in Syria*, unpublished paper.

concerned. Report has shown that "Despite good progress over the past generation, more than 1 million people still live in acute poverty and suffer grossly inadequate access to the resources -education, health services, infrastructure, land and credit- required to give them a chance of better life. The essential task of development is to provide opportunities so that these people, and the hundreds of millions not much better off, can reach their potential."³³

Another equally important issue that has been pre-occupied with self-interest is the formation and strengthening of trade blocks. Europe and America are doing this on the grounds of common interest, markets and bargaining power. The Aseans, with their East Asia Economic Caucus (EAEC), is doing on a more liberal basis, to cooperate in their trading activities. How much benefits that each member of the partnership gain is a matter of evaluation and analysis. At the outset they are protecting their self-interest.

³³World Development Report, 1992, p.1.

SECTION C
THE ANALYSIS

I. Beyond Self-interest.

Since early 18th century, self-interest is seen to be an inveterate instinct, especially in economic transactions. The inherent view is that individual should get what they want and individual preference should count. The challenge facing development strategies today extent beyond the self-interest standard. Fulfilling the satisfactory maximization label, to some extend, getting closer to the promotion of social welfare. This goes to our central thesis that self-interest is the necessary but not the sufficient condition for the social welfare and progressive economy.

In a group, individual self-interest need to be modified for the objective of the group. It is by no means clear that individual self-interest maximizers will typically do relatively better in a group of people with diverse motivations. More importantly, when it comes to comparison of survival of different groups, it can easily be the case that groups that emphasize values other than pure self-interest maximization might actually do better. It has been argued that economic success has often come more plentifully in cultures that emphasize norms of conduct quite different

from that of persistent maximization of individual self-interest, focusing on other values.

In Japan, people conduct their lives with more of a communal spirit than that of self-interest approach. It is bad to place one's own goals ahead of those of the group.³⁴ Pascale and Athos pointed out that the key to the success of Matsushita Electric Co., the focus of their study, is its value system. This system requires employees to commit themselves to serve society as well as to make money, and uses group decision making and a communal spirit to increase social cohesiveness. The authors state that the Matsushita system combines the rationalism of the West with the spiritualism of the East.³⁵

A very important development that seldom capture the attention of economists is the development of values. The recently launched strategy, the "2020 Vision", in the Malaysian case, is a movement towards that direction.³⁶ Although the aim is to create a united Malaysian, it is more to implant the feeling of caring, not only among the fellow friends but the environments as well. The feelings of

³⁴ Michio Morishima, *Why has Japan 'succeeded'?*, (Cambridge, London: Cambridge University Press, 1982) p.3-9.

³⁵ Pascale, Richard Tanner, and Anthony Athos, *Art of Japanese Management*, New York: Simon and Schuster, 1981, p. 18.

³⁶ Dr. Mahathir Mohammad, Malaysia's Prime Minister, a speech to Congress Bumiputra on 28th. Feb. 1991.

worries, self-indulgence, doubtful, sensitivity and jealousy will be reduced and subsequently be eliminated.

New values are being nurtured so that the traditional values are not simply thrown away or forgotten. The embarkment on such policy was made after realising the type of economic growth the West had experienced - material growth without necessary values that keep the societies at peace or being suspicious at each other. Among the important values being emphasised are resilience, competitiveness, development of a broad based and balanced economy. Since the private sector has greater relative role to play in development, public sector involvement may be reduced. This is one aspect of privatisation, which aims at helping the new entrepreneur acquire competitiveness and discipline - the qualities needed in the free market enterprise.

The development strategy adopted thus far is still the free market approach of self-interest although different from the capitalist prototype of the west. However to strive for a harmonious and comprehensive development, altruistic behaviour, mutual social responsibility and the sharing of abundance and affluence are necessary.³⁷ In Islam this can

³⁷ Muhammad Kamal Hassan, *The Implications of Science and Technology Education and development on Islamic Values*, in *Cultural Heritage Versus Technological Development - Challenges to Education* edited by R.E.Vente, R.S.Bhathal and R.M.Nakhooda, Marizen Asia, 1981, p.191-201.