Gary Becker, in his Nobel Lecture “The Economic Way of Looking at Behavior”, and Adam Smith, in “Wealth of Nations”, both reflect and rely upon two fundamental economic principles: the assumption of rationality and theory of self interest. Becker, while in concurrence with Smith on these two principles, refines the rational choice model even further. As Becker claims, “an important step in extending the traditional analysis of individual rational choice is to incorporate into the theory a much richer class of attitudes, preferences, and calculations.” This response paper will discuss both Becker and Smith, and critique Smith from the perspective of Becker.

Adam Smith, in “Wealth of Nations” Book 1 Chapter 2, probes and explores the reasons as to why and how the division of labor arises in human society. Smith ascribes this division of labor as the main cause of “improvement in the productive powers of labor,” and contends that “it is the necessary, though very slow and gradual, consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another.” Yet what truly motivates this propensity of human beings to exchange one thing for another? As Smith pithily points out, it is the rational, self-maximizing behavior model that propels the division of labor and sustains the propensity to barter. It is because human beings, different from all other animals, have “almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only.” Thus the system of treaty, barter, and purchase comes into existence and all rational, self-interested, utility-maximizing agents agree to take part and “obtain from one another the greater part of these mutual good offices which we stand in need of.” Adam Smith, in his pioneering works,
establishes the foundations of the rational choice model and uses it to assess broader social issues.

Becker continues the line of thinking of Smith and extends it even further. In his four research areas, Becker uses economic models to analyze social issues and bases his work mainly on the rational choice model, costs and benefits considerations, and maximizing behavior. However, the important point of departure from Smith is in the social behavior model Becker embellishes upon. Becker’s economic approach does not “assume that individuals are motivated solely by selfishness or material gain.” The theory of self-interest is still at work, but the analysis critically “assumes that individuals maximize welfare as they conceive it,” and this behavior is transitive, forward-looking, and consistent over time. Human beings are rational and self-maximizing agents, yet there are other preferences and attitudes that need to be taken into consideration. For instance, as it describes in the section regarding family structure, each person considers the benefits and the costs of his action. Yet other factors such as “feelings of duty” or “altruism” are embedded in human preferences, which in turn, are inseparable from the chain of actions in the market place and have to be taken into account in any viable economic model.

While all the claims in Smith are valid and sound, it is possible to critique Smith from the perspective of Becker. Smith argues that “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 interest.” It is valid from an elementary level, but Becker would be able to build on the statement and add that there are other factors that also contribute to the division of labor other than self-maximizing interests: sense of cooperation, concern for
reciprocity, even benevolence or altruism. One could argue that altruism or benevolence could be products of self-maximizing interest, in that individuals tend to maximize welfare as they conceive it. If being altruistic and giving out bread for free to customers is what maximizes the baker’s utility, then the baker would doubtlessly choose that course of action because it is to his or her advantage to do so. In denying that possibility, Smith limits his economic model. As Becker shows, it is important to take into account “this wide set of richer class of preferences, attitudes, and calculations.” In modifying the theory of incentives and self-interest of Smith from the perspective of Becker, Becker achieves a more well-integrated economic model to explain real social phenomenon.