

# THE INVISIBLE HAND AND FREE MARKETS



As introduced by Adam Smith, The invisible hand refers to large market trends and focuses on macroeconomic principles. The concept argues that markets with little government involvement are able to use resources efficiently due to supply and demand in competitive markets. The idea is included in the "*laissez-faire*" government policy with its benefits being unintended but still greater than other regulated economies.

Pettinger, T., & Lukas. (2019, December 21)

## USES AND MEANINGS

The term is was used to justify people's tendency to stay in local markets and to justify the spread of goods such as clothing to many more people through societal collaboration (Foster, P.).

The (mostly constant) use of the term would aid those in support of free markets and would be used to argue against Soviet methods of rule in the 1960s (Leroy, S., 2010).

4 customer example

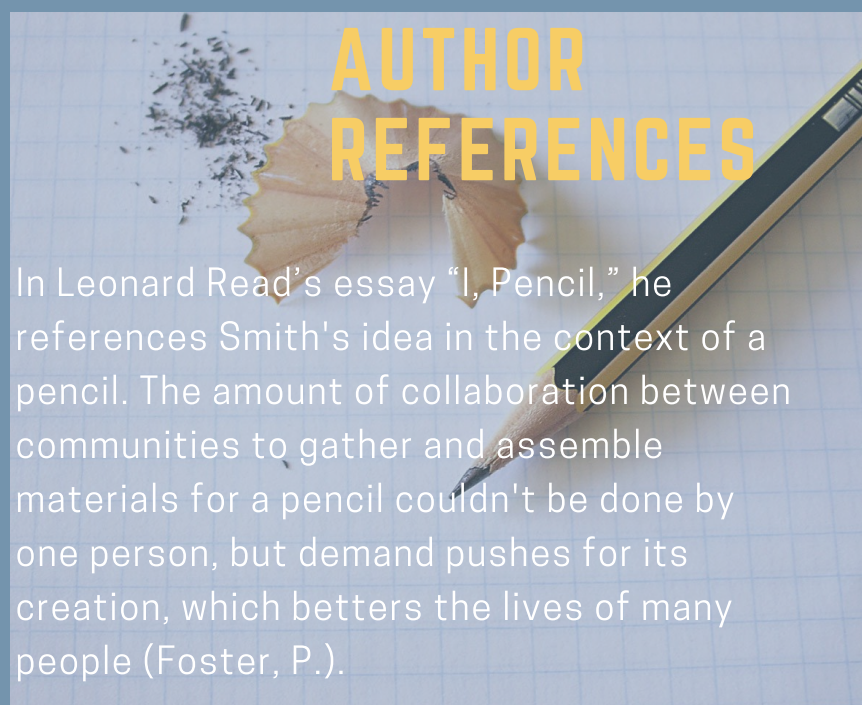


We can see the invisible hand in simple business strategy daily. If we see one customer buying milk from one store at \$5 and three others buying elsewhere at \$3, the less populated store will try to win over the other three customers by lowering prices. Because of this, resources would be used efficiently by suppliers in an effort to cut down on their cost of goods.

# 1759

The idea was published in 1759 in *The Theory of Moral Sentiments*.

(Majaski, C., 2020, October 21)



In Leonard Read's essay "I, Pencil," he references Smith's idea in the context of a pencil. The amount of collaboration between communities to gather and assemble materials for a pencil couldn't be done by one person, but demand pushes for its creation, which betters the lives of many people (Foster, P.).

We see the Invisible hand in economic analysis:

## SOVIET RUSSIA'S IMPOSSIBLE FEAT



In the 1960s, Communist Russia reported GNP per capita growth rates poised to surpass the U.S. People believing Smith saw this as impossible. How could a centralized market beat the free market? Economist G. Warren Nutter released a detailed report on the supposed overestimation of Russia's GNP and this had been verified by the 1980s. The Soviet Empire was, in actuality, falling apart from the inside (Leroy, S., 2010).

## THE INVISIBLE HAND IN ETHICS

Smith Believed that individual values (such as happiness and sufficiency) must respect the diverse interests of others in order to hold morality (Evensky, Jerry. 1993). We see this today in our shift towards environmentalism and efforts towards recycling. When one person recycles, it is for the benefit of society as a whole and future generations. Small acts such as this will make the society Smith envisioned as being a forward-looking growth society.

## IMPERFECTIONS OF THE INVISIBLE HAND

Despite Smith's research and theoretical principles, we have seen situations where a lack of intervention can have negative impacts on society. One such example could be seen in the prices of toilet paper during the COVID pandemic. The irrational surge in toilet paper buying pushed prices much higher than economic principles could predict. Such irrational movements in the market can't be accounted for, which makes them key arguments for government regulation.

# Citations

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Evensky, Jerry. 1993. "Retrospectives: Ethics and the Invisible Hand." *Journal of Economic Perspectives*, 7 (2): 197-205.