Another Distortion of Adam Smith: The Case of the "Invisible Hand"

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Abstract
This paper addresses a major omission in the way textbook writers and journalists utilize Adam Smith's concept of the "invisible hand" to make Adam Smith an intellectual precursor of modern neo-liberal economic policy. Specifically, the paper addresses the use of the concept of the "invisible hand" by Adam Smith to address two major issues in the debate over neo-liberal policy: the international flow of capital and its role in the location of investment projects and the inequality in the distribution of income that might result from certain policies. The neo-liberal mantra about Adam Smith's invisible hand asserts that so long as there is sufficient competition and no government intervention beyond the protection of life, liberty and property, the pursuit of individual self interest will result in an improvement in the aggregate well being of society as a whole. This is true even if investments are made overseas and if economic inequality increases. Aside from some contributions to the professional literature, virtually everyone else who writes about the invisible hands ignores what Adam Smith actually said. This paper restates what Smith said when he used the term "invisible hand" in both The Wealth of Nations and in The Theory of Moral Sentiments. It places his use of the term in context to illustrate how far Smith departs from the distortions of his neo-liberal self-described admirers.