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Adam Smith and the Invisible Hand

By EMMA ROTHSCHILD*

The point of this paper is to put forward an interpretation of how Adam Smith viewed the invisible hand, and to make a suggestion about how modern economists might view it. The interpretation is that Smith did not particularly esteem the invisible hand and thought of it as an ironic but useful joke. The suggestion is that Smith's view is of continuing and even increasing modern interest.

Smith used the words "invisible hand" on three dissimilar occasions. The first use, in his *History of Astronomy*,¹ is clearly sardonic. He is talking about the credulity of people in polytheistic societies, who ascribe "the irregular events of nature," such as thunder and storms, to "intelligent though invisible beings—to gods, demons, witches, genii, fairies." They do not ascribe divine support to "the ordinary course of things": "nor was the invisible hand of Jupiter ever apprehended to be employed in those matters" (Smith, 1980 p. 49)

The second use of the invisible hand is in *The Theory of Moral Sentiments* (1759). The use, here, is sardonic in a different respect. Smith is describing some particularly unpleasant rich proprietors, who are quite unconcerned with "humanity" or "justice" but who in "their natural selfishness and rapacity" pursue only "their own vain and insatiable desires." They do however employ thousands of poor workers to produce luxury commodities: "They are led by an invisible hand to ... without intending it, without knowing it, advance the interest of the society" (Smith, 1976b p. 184).

Smith's third use of the invisible hand is in *The Wealth of Nations* (1776), in a chapter concerned with international trade. He

argues strongly against restrictions on imports, and against the merchants who support them, forming "an overgrown standing army" who "upon many occasions intimidate the legislature." Domestic monopolies, he says, are advantageous for specific industries; but if there were no import restrictions, the merchant would still prefer to support domestic industry, in the interest of "his own security." He will thereby promote the interest "of the society"; "he is in this, as in many other cases, led by an invisible hand to promote an end which is no part of his intention" (Smith, 1976a pp. 453–71).

The successive uses of the invisible hand have posed problems for historians of economic thought. Its role seems to change; for Alec Macfie (1971 pp. 595, 598), "the function of the divine invisible hand appears to be exactly reversed," transformed from a "capricious" to a providential and "order-preserving" force. The change is explained as a matter of literary taste; Smith, who "enjoyed pithy, forceful phrases," simply remembered the invisible hand of Jupiter, but "reversed its relation to the natural order."

I would like to suggest, instead, that Smith's attitude to the invisible hand was ironical on each of the three occasions. The evidence for this view is indirect. Smith makes no other mention of the invisible hand; it is interesting that commentators on his work, too, mentioned it only infrequently prior to the 20th century. What I will have to show, in these circumstances, is that the invisible hand is in conflict with other parts of Smith's work; that it is the *sort* of idea he would not have liked.

I begin with the intellectual history of invisible hands, which turns out to be uniformly grim. There is a more famous invisible hand in Anglo-Scottish literature, with which Smith was almost certainly familiar. It is invoked by Macbeth, who asks the night, "with thy bloody and invisible hand," to cover up the crimes he is about to commit, (*Macbeth*, Act III, Scene ii). There is

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¹Thought to have been written in the early to mid-1750's (published posthumously, 1795).

an earlier invisible hand which is even more unpleasant and which Smith is also likely to have known; it appears in one of Ovid's *Metamorphoses*, in which the hero, stabbing his tormentor in the back, "twisted and plied his invisible hand, inflicting wound within wound" (Ovid, 1984 p. 215).

The word "invisible" was itself disobliging. Smith, like David Hume, uses it mainly for the objects of superstition, or for the unexplained elements in scientific systems. He associates the invisible on several occasions with heathen religion and criticizes Socrates for his secret communications with "some invisible and divine Being" (Smith, 1976b p. 251). Invisible powers, in Smith's *Lectures on Rhetoric*, are "fairies, Nymphs, Fawns, Satyrs, Dryads and such divinities" (see Rothschild, 1994).

How, in this setting, is Smith likely to have viewed his now famous device? One sort of evidence is strongly in favor of the invisible hand. It is that the theory of the invisible hand—in which the outcome of individual choices is a coherent and orderly social system—is aesthetically delightful. "We take pleasure in beholding the perfection of so beautiful and grand a system," Smith (1976b p. 185) says of public policy. This is the sense in which Robert Nozick (1974 pp. 18–19) speaks of the "lovely quality" of invisible-hand explanations, or in which Kenneth Arrow and Frank Hahn (1971 p. 1) say that Smith's theory is "poetic"; economic theory was in the 1750's, and is now, an aesthetic experience.

The second sort of evidence is unfavorable. One reason to suspect that Smith was not entirely enthusiastic about theories of the invisible hand is that these theories are condescending or contemptuous about the intentions of individual agents. Smith's three uses of the phrase have in common that the individuals concerned are quite undignified; they are silly polytheists, rapacious proprietors, disingenuous merchants. The classical Latin word which is translated by "invisible" is *caecus*, which in its literal sense means blind. If X is invisible to me, then I am blind in respect of X. The association persists in modern theory; "an invisible hand explanation," Nozick says, shows that facts arise "from some blind mechanism," although "what arises from a blind process

need not itself be blind" (Nozick, 1981 pp. 343, 347).

Smith is thought of, rightly, as a great defender of individual freedom. But the subjects of invisible-hand theories are blind, in that they cannot see the hand by which they are led. They are also foolish, in that their intentions are puny and futile. It is interesting that, in his very last writing, Smith introduced a new, visible disembodied hand. The systematic reformer, he says, imagines that it is possible to arrange "the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board"; he does not realize that in real societies "every single piece has a principle of motion of its own" (Smith, 1976b p. 234). But this independence and idiosyncrasy of individuals is what Smith seems to be denying in his account of the invisible hand; it is in this sense a thoroughly un-Smithian idea.

The invisible hand is un-Smithian, thirdly, in that it presupposes the existence of a theorist (if not of a reformer), who sees more than any ordinary individual can. The disembodied hand is invisible to its millions of petty subjects, but it is visible to "us": to theorists. The sequence is in fact an inverted version of the story of the emperor's new clothes, with the emperor as the hero: the subjects in the streets think that the emperor has no clothes, and that there is indeed no emperor; but the emperor himself, or his economic advisers, knows that he is actually there, directing their wills.

This knowingness of the theorist is characteristic of 18th- and 19th-century doctrines of unintended consequences; when G. W. F. Hegel talks of the cunning of reason, he is also talking of his own cunning. But it is quite unlike Smith. It is especially so when the cunning theorist is in fact the person whispering in the ear of the reformer, or of the emperor with the visible hand. One claim made for the invisible hand, after all, is that it suggests ways to devise institutions and policies "which harness self-interest" for the social good; its effect is to "leave agents open to manipulation by authority" (Hahn, 1982 pp. 17, 20).

It is interesting, in this context, that the notion of unintended consequences was by the 1770's something of a cliché. But it was

a cliché used in *opposition* to freedom of commerce and individual independence. The Advocate Séguier, one of the principal opponents of A. R. J. Turgot's free-market reforms, which Smith strongly favored, thus argued in 1776 in support of the "salutary fetters" of regulation, and against a vicious "love of independence," that within restrictive guilds "each member, in working for his personal utility, necessarily works, even without willing it, for the true utility of the entire community" (Turgot, 1923 [Vol. 5] p. 288).

A fourth sort of evidence about Smith's intentions has to do with Smith's own skepticism. The invisible hand has been understood by historians as the expression of Smith's religious (or deistic, and Stoic-inspired) beliefs; it is the hand "of the Christian deity." One of its connotations, for 19th-century critics, was indeed as a "secret substratum" of "a priori theological ideas" in Smith's work (John Kells Ingram, 1967 pp. 90, 106). This view poses evident problems for modern exponents of the invisible hand. My suggestion is that it would have posed very serious problems for Smith as well.

Smith was critical of established religion throughout his work, and he became more explicitly critical in his later years. He also became more critical of Stoic prescriptions, and especially of what he described as their "most sovereign contempt of human life": Epictetus, he says, "never exults so much...as when he represents the futility and nothingness of all its pleasures and all its pains" (Smith, 1976b p. 288). Smith's comments on religion, like Hume's, are often ironical, and also highly conscious of pious public opinion. But it seems likely that when he speaks of the "all-wise Being" as "determined, by his own unalterable perfections" to maintain "at all times, the greatest possible quantity of happiness" (Smith, 1976b p. 235) he is being ironical rather than pious.

A final sort of evidence, which again suggests that Smith did not take the theory of the invisible hand entirely seriously, is that it abstracts from several of the problems with which he was most preoccupied in his political economy. These problems, of political influence on commerce, are indeed the

principal subject of the invisible-hand chapter in the *Wealth of Nations*: they include the errors of merchants about their own interests, the influence of merchants over political regulations, and the particular difficulties of periods of transition from one regulatory regime to another. The invisible hand appears, in fact, in the middle of a powerful description of market power; of the propensity of merchants to pursue their objectives, successfully, by influencing restrictions on imports.

The success of the invisible hand depends on whether people choose to pursue their own interests by political influence, by the use of force, or in other ways. It thereby requires both good institutions and good norms, whereby individuals pursue their interests within the rules of well-defined games, and not by seeking to influence institutions or rules. On one view, these good institutions are the outcome of policy: "it is the hand of the lawgiver," for Lionel Robbins (1952 p. 56), "which withdraws from the sphere of the pursuit of self-interest those possibilities which do not harmonize with the public good." On another view, they are the outcome of custom: institutions are good if they are themselves the unintended consequence of individual self-interest.

Smith was notoriously suspicious of the efforts of lawgivers to influence norms (including the norms which govern people's choices of whether to try to influence laws, or even norms). But he was also suspicious of customs; "it is absurd," he said "to preserve in people a regard for their old customs when the causes of them are removed" (1978 p. 529). Carl Menger complained, in fact, of Smith's and his followers' lack of understanding of "unintentionally created social institutions" and of his impetuous and rationalistic efforts "to do away with what exists" (1985 pp. 172, 177). Smith's criticisms of government and of institutions are central to his political economy; it is most unlikely that he would simply forget them in a grand theory of the social interest.

The invisible hand, in these circumstances, is a sort of trinket; in the words Smith used of Newtonian astronomy, it is a "mere invention of the imagination" (1980

p. 105); but it is an invention which is politically useful. Smith says that “you will be most likely to persuade” public men if you appeal to their love of “beautiful and orderly” political schemes (1976b pp. 185–86). The system of general economic order is such a scheme. It may or may not work; but it will at least work better than the visible hand of universal regulation. Its political importance consists, in fact, in its public loveliness, or in its potential to dissuade people from the use of other, more oppressive hands.

Smith’s intellectual universe, in conclusion, is in some respects highly evocative for modern theory. The deconstruction in recent years of functions which correspond to Smith’s general interest of “the society” (1976a p. 456) has diminished the charm of the invisible hand. If one has no conception of general welfare, then one has no function to be maximized with the help of Smith’s contrivance. If the role of the contrivance is instead simply to yield an outcome which is “coherent,” or in which the decisions of decentralized agents are “consistent,” then some aggregate view of orderliness is still needed.

The probabilistic reasoning of some recent theory is in this respect very much in Smith’s spirit. Recent descriptions of agents and their signals, too, are distinctly Smithian. The *tâtonnement* of general competitive equilibrium is a (blind) groping in the dark. Agents who are trying to interpret ambiguous protocols, or deciding whether to try to influence the rules of the game in which they are engaged, or “groping for more efficient institutions,” are much closer to the complicated merchants of Smith’s theory.

What has perhaps happened, more generally, is that the world itself is more like Smith’s world. The difficulty which is at the heart of Smith’s use of the invisible hand in the *Wealth of Nations*—of distinguishing licit and illicit expressions of the self-interest of agents, and of trying to depict a society in which the norms governing such distinctions are changing extremely rapidly—is strikingly recognizable in the economies of the 1990’s. My prediction is that the invisible hand will loom much less large in

the next century of Smithian studies than it has in the 20th century. But the study of Smith may thereby, as it turns out, be more convincingly Smithian.

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