Self-interest, Sympathy and the Invisible Hand

From Adam Smith to Market Liberalism

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Abstract

Adam Smith rejected Mandeville's invisible-hand doctrine of 'private vices, publick benefits'. In The Theory of Moral Sentiments his model of the 'impartial spectator' is driven not by sympathy for other people, but by their approbation. The innate capacity for sympathy makes approbation credible. Approbation needs to be authenticated, and in Smith's model authentication relies on innate virtue, which is not realistic. An alternative model of 'regard' makes use of signalling and is more pragmatic. Modern versions of the invisible hand in rational choice theory and neo-liberalism are shown to be radical departures from the ethical legacy of Enlightenment and utilitarian economics, and are not consistent with Adam Smith's own position.

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Modern versions of the invisible hand in rational choice theory and neo-liberalism are shown to be radical departures from the ethical legacy of Enlightenment and utilitarian economics, and are not consistent with Adam Smith's own position. Avner Offer, 2012. "Self-interest, Sympathy and the Invisible Hand: From Adam Smith to Market Liberalism," Economic Thought, World Economics Association, vol. 1(2), pages 1-1, December. Handle: RePEc:wea:econth:v:1:y:2012:i:2:p:1. as. HTML HTML with abstract plain text plain text with abstract BibTeX RIS (EndNote, RefMan, ProCite) ReDIF JSON. Download full text from publisher. The invisible hand is a term used by Adam Smith to describe home bias and the danger of deregulated capital flows. The phrase was employed by Smith with respect to income distribution (1759) and production (1776). The exact phrase is used just three times in Smith's writings, but has come to capture his notion that individuals' efforts to pursue their own interest may frequently benefit society more than if their actions were directly intending to benefit society. Smith may have come up with the two These awaken sympathy and arouse the impartial spectator. A primary function of morals is to promote justice, which is the "main pillar" without which social organization would "crumble into atoms" (Smith 1982c, 86). Whereas person and property must be defended by civil and criminal codes, Smith's system of justice relied upon cit-izens who practiced self-command. As I discuss later, the invisible hand is not simply the instinct of self-interest operating alone. Nor is the invisible hand the market or competition or efficiency—or although these institutions and concepts may work synergistically with it.