

Free adam smiths contribution to the modern economic life essay example

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Invisible hand concept

A great economist, philosopher, scholar and researcher Adam Smith passed this world a few centuries ago and left us quite controversial matters to be discussed and clarified. Famous and prominent scholars tend to leave us certain mysteries for this world to wonder.

In his book “ An Inquiry into the Nature and Causes of the Wealth of Nations”, Adam Smith asserts:

“ Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society” (362).

The economist referred to this phenomenon as to “ invisible hand”.

Currently, a lot of scholars and researches are trying to solve this riddle, what Smith actually meant for he mentioned the notion of “ invisible hand” in different meanings. Grampp’s research allows us to distinguish ten interpretations of “ invisible hand”:

- 1) individual’s self-interest leads to the general common interest. Grampp states that this variant remains true as long as an individual pursues his own interests domestically in the competitive market;
- 2) the invisible hand is actually the price formation and control;
- 3) the third theory of understanding invisible hand refers to the Neo-Austrian view describing the consequences of the actions done by individuals

unintentionally. Though, Grampp claims that this adds nothing to the understanding of invisible hand;

4) the invisible hand is defined as market competition. The scholar argues the aforementioned interpretation as a failure because Adam Smith did not describe it in his works;

5) the invisible hand can be seen as the mutual advantage deriving from economic exchange. To the detriment of this understanding, Smith did not say about the mutual advantage as of the essential key to defining the invisible hand;

6) the invisible hand is considered as a tricky quiz. However, it is unlikely and undoubtedly that Adam Smith just intended to make jokes in his "Wealth of Nations". Chances are Smith did not take it as a primary task to render the explicit definition of the invisible hand, but wanted to deliver its practical essence which is much more important;

7) the process of obtaining knowledge and skills may lead to improvements in wealth. Regarding this interpretation Grampp discusses that it can give nothing useful for the economist to understand the invisible hand;

8) God is the invisible hand. Although, Adam Smith is unlikely to have meant the very this explanation while delivering the example with individual's self-interest which mysteriously forces him to choose the variant of the behavior profitable for the domestic market;

9) the invisible hand prevents market subjects from exporting capital to foreign countries and by this it protects the national defense;

10) and the last interpretation is Grampp's own interpretation reflecting the principle of the domestic market protection (qtd. in Thornton 4 - 6).

Like every normal and adequate individual, a potential businessman, investor, entrepreneur, in general - a capitalist will be, in particular, prevented by the reasonable fears that his assets could be more secured at home rather than in a foreign country. They are driven by natural instincts. However, those fears are also increased by the economic and political actions of a certain country. Every state intends to accumulate more capitals in its territory using its administrative resources and measures.

So, from this perspective of view, Smith's invisible hand may be defined as a set of natural, economic and political events and actions aimed at the preservation of the capitals in certain territories.

Though, Adam Smith's theory has been elaborated in the 18th century and reflects the current state of economic affairs of that period, and, among other things, responds to the economic policy of the Great Britain in the 18th century. In modern times everything is on the contrary - current global demands and circumstances require that companies and individuals should consider investing in foreign countries to increase their wealth for practically all of the domestic markets may be already occupied.

Adam Smith's discussion on innovation

Mark Knell in his research " Demand Driven Innovation in Economic Thought" proves that in the 18th century Adam Smith interpreted innovation in the context of its being capable to improve labour productivity and work results. Hence, the economist associated innovation with machines helping workmen to achieve greater results. Demand is seen by Smith as a catalyst driving the creation of innovations in different branches of work:

“ The increase of demand, besides, though in the beginning it may sometimes raise the price of goods, never fails to lower it in the long run. It encourages production, and thereby increases the competition of the producers, who, in order to undersell one another, have recourse to new divisions of labour and new improvements of art, which might never otherwise have been thought of” (4 - 5).

The scholar Bengt-Ake Lundvall indicates two types of innovations: the first is based on experience and the second one is based on science and research, he calls them “ DUI-mode - leaning by doing” and “ STI-mode - science is seen as the first step toward new technology and innovation” (11 - 12).

The researcher Paul Hobcraft continues to develop Adam Smith’s thoughts in the 21st century by alleging that in modern times the concept of innovation is embodied in “ the work to be done” framework (Paul4innovating’s Blog). Hobcraft underlines that “ the work to be done” comprises the process of seeking new skills and knowledge to stay competitive in the global markets. Whether we consider Adam Smith’s machines or Paul Hobcraft “ work to be done”, we will arrive at the conclusion that innovation is something new (a mechanism, method of solving certain problems) enabling us to take steps forward in our development.

Mercantilism and free market ideology

In “ An Enquiry into the Nature and Causes of the Wealth of Nations” Adam Smith widely criticizes mercantilism as economic theory and social ideology of that time. Regardless of mercantilism and free market’s common

objective of increasing wealth and enlarging power of the nation, these economic theories have differing principles.

The major principle of mercantilism ideology reads that the government should regulate the markets and economy in general to accumulate the wealth in the country. Mercantilism proponents asserted that a certain country could only accumulate its wealth at the expense of other countries. They thought a world had a limited quantity of wealth and in order to become rich the state must take some portion of wealth from another state (presumably - in the unfair manner and practices). Besides it, mercantilism proponents claimed that the country must reduce the quantity of imported goods from foreign countries, provide its companies with substantial financial aid and impose high tariffs and strict procedures on imported goods (Diagram Visual Information Ltd.).

In its turn, Adam Smith's theory of free market is formed on the statement that states should not govern trade in any way or prevent their citizens from purchasing foreign products. Smith says on this matter:

“ In a free economy, the natural laws of economics can operate, resulting in goods being produced at the lowest possible price. In an economy regulated by government, the natural laws of economics cannot operate, to the detriment of all” (Ibid).

Adam Smith's critique of mercantilism is important and plays a significant role in our days. Mercantilists' ideology has resulted in a huge failure. By regulating the economy (financial aid, subsidies), the government helps a lot of monopolies to emerge which may have a detrimental effect on the state. Nowadays, such international organization as WTO is concerned with the

problems of state monopolies and public subsidies in various forms affecting international trade by giving rise to unfair practices. And even now when so much time has already passed away, we can feel the significance of Smith' theory of free market and critique of mercantilism.

Conclusion

Adam Smith has given this world the primary natural laws of economics which may be observed to function successfully by our days:

- 1) law of “ invisible hand” which is likely to have contributed to the elaboration of the theory of free market and liberal trade;
- 2) law of competition. Competition proves to give rise to the process of innovations seeking that increases productivity and improves quality of the goods;
- 3) supply and demand law - this natural statement is well-known among producers and businessmen. It determines your position in the market. When supply is low, prices will continue to remain high and vice versus.

Undoubtedly, Adam Smith has made a great contribution to the development of the modern economic views. His “ invisible hand” is likely to remain a primary subject for further scientific deliberations in the circles of the scholars from different countries. Whatever precious Adam Smith's legacy might be, it should always be viewed in terms of the time frame it was elaborated. It worth noting that we have much work to be done and must not stop at the results achieved.

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