

IS ADAM SMITH'S IDEA OF HARMONY BETWEEN INDIVIDUAL SELF-INTEREST AND SOCIAL INTEREST CONSISTENT WITH THE REALITY OF TODAY?

Michal Mirvald

Abstract

The concept of invisible hand is still actual and no longer just a matter of philosophy and pure political economics. In the Wealth of Nations Adam Smith writes that individual interests, based on selfishness, can lead to the improvement of social benefits in the laissez faire economic system. Although both selfishness and self-interest is typical for contemporary capitalist economy, some of them are already facing high unemployment, the threat of technological obsolescence and loss of competitiveness.

This paper tries to find possible reasons why this Adam Smith's idea is seemingly invalid. The concept of invisible hand, based on harmony between individual self-interest and social interest, can be seen as a historical matter due to issues, such as accelerating globalization, separation of the link between the seller and the customer, the information asymmetry on the customer side and limited consumer awareness, continuous international separation of basic factors of production, and different social values.

Key words: Adam Smith, national wealth, selfishness, self-interest, wealth of nations

JEL Code: B12, F62

Introduction

One of the leading topic Adam Smith's publications¹ is the concept of invisible hand, which is still actual and no longer just a matter of philosophy, ethical thought and pure political economics². Relationship between individual self-interest and social interest is followed up and studied in experimental economics (Stevens, 2011), business ethics (Bragues, 2009), etc. One might even say that invisible hand becomes more interdisciplinary.

¹ (Smith, 1759/1790), (Smith, 1776/1906)

² Forman-Barzilai (2000) writes about the tension between Adam Smith's ethical and economic thought as key components of a larger system of moral philosophy.

1 Invisible hand in history and today

The concept of invisible hand is based on spontaneous harmony between the individual self-interest and the social interest. Although the individual self-interest seems to be contradicting the social interest, selfishness is exactly this, which can lead to the improvement of the national situation and increasing the wealth of nation. „Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.“ (Smith, 1776 / 1906, p. 7)

A spontaneous way is in keeping with the individual interest and the interest of society without the state intervention or another central authority. Essential assumption is a laissez faire there where individuals behave economically, thanks to the mutual competition. Producers try offering the best quality of products and services at the lowest possible prices, households not doing recklessly buying, but save and invest. Following their benefits leads to the increase in the national wealth, which is the sum of the individual wealth, and to the growth of social welfare.

Smith's laissez faire was a little more different from this one today. Although a normal part of Smith's days was hunger and poverty, the economy of the 17th century wasn't hit by constantly accelerating globalization. Industrialization and evolving technologies were still at the beginning and agriculture played the dominant role in the economy. Trades were made mostly by small family businesses, and even though there were larger companies their ability to influence the market situation was severely limited. Sellers offered at the local competitive market similar commodities, mostly of basic use, and commercial transactions between sellers and buyers were carried out directly, without any intermediaries. Customers regularly acquired sufficient information about the purchased products through the close links between the supply and the demand sides of the local market.

The current market situation is rather different. Thanks to the globalization trends, there is separation of the link between the seller and the customer, at least from the geographical point of view. The position of these two "market players" is not the same. The costumer often faces gigantic multinational companies, and in the case the products purchased, he must fight the information asymmetry. The limited consumer awareness is used

by the multinational retailers to their advantage when they in search of higher profits willingly offer even harmful or dangerous products. As Maria Paganelli has highlighted: *„According to Smith, merchants and manufacturers are willing to ignore the existing rules and institutions because, thanks to monopoly powers, they will gain a lot of wealth and therefore improve their position in the eyes of others.“* (Paganelli, 2012, p.154)

However, the dichotomy exists even just on the supply side of the market within large companies and corporations. *„Labour and management are in continual conflict, and most corporate shareholders – owners of mutual funds and pension funds - are conscious of how much of chat companies they own.“* (Ikerd, 1999, p. 2) Permanent longing for rising profits leads the top management to move their production out of the home economies which, in addition to the rising unemployment, may lose long-term competitiveness due to the capital outflows and know-how loses.³ In summary, all efforts are focused on short-term selfishness.

Moreover, thanks to the development in information technology and the Internet sales, large sales of "genuine fakes" are today's "standard practice", and trademark protection, with regard to the quantum of realized transaction, is toothless and becomes a meaningless phrase.

At the international background there is the continuous separation of basic factors of production which in this way devalues the original Smith's concept of national wealth as the sum of individual self-interests of domestic residents.

And it is not only economic but also a social issues. Smith's society was based on strong social values. Tradition, culture and moral rules determined the basis of individual behavior. Nation and family were significant and important institutions, and not only empty words. Contemporary society is a different form, traditions and morals are ignored, and although it is still emphasized individuality and individualistic approach, the individuality is interesting only in terms of wealth and property, regardless of its origin. And these and similar individuals are in key positions, playing dominant role in the economy and significantly affecting the function of the market. The form of modern society so seemingly contributes to the invalidity of the invisible hand.

³ For example (Abrhám, 2008)

Conclusion

The fact that economy and society of Smith's day was quite different from current reality can evoke such impression that Adam Smith's idea of harmony between individual self-interest and social interest is merely a matter of history and for today's world is actually invalid.

References

Abrahám, J. (2008). Movement of the European Union Determined by Economic Aspects. (1st ed.). Prague: MAC.

Bragues, G. (2009). Adam Smith's Vision of the Ethical Manager. *Journal of Business Ethics*, 90, 447-460.

Forman-Barzilai, F. (2000). Adam Smith as globalization theorist. *Critical Review*, 14(4), 391-419.

Ikerd, J. E. (1999). Rethinking the Economics of Self-Interests. Presented at Annual Conference of Organization for Competitive Markets, Omaha, NE, August 20.

Paganelli, M. P. (2012). Economies in transition and in development: A possible warning from Adam Smith. *The European Journal of the History of Economic Thought*, 19(2), 149-163.

Smith, A. (1776/1906). *An Inquiry into the Nature and Cause of the Wealth of Nation*. (5th ed.). London: Methuen & Co., Ltd.

Smith, A. (1759/1790). *The Theory of Moral Sentiments*. (6th ed.) London: A. Millar.

Stevens, D. E. (2011). Rediscovering Adam Smith. How The Theory of Moral Sentiments can explain emerging evidence in experimental economics. *Working Papers Series 2011:04*. Adam Smith Research Foundation, University of Glasgow.

Contact

Michal Mirvald

Faculty of Economics, University of Economics, Prague

W. Churchill Sq. 4, 130 67 Prague 3, Czech Republic

mmirvald@centrum.cz