# The Development and Practice of the "Invisible Hand"—An Exploration Starting from Adam Smith

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***Abstract*—In the long history of economics, Adam Smith's "invisible hand" theory stands like a brilliant star, illuminating the path for the development of economic theory and profoundly impacting global market practices. Though Smith himself did not place as much importance on the "invisible hand" as writers and scholars have since the 1950s, and even though the term does not hold a central position in The Wealth of Nations, where it is broadly believed to have originated, this metaphor has sparked extensive debate and reflection within both the field of economics and in policy-making. To give modern audiences a fuller understanding of this theory and to better harness its insights, this paper will provide a brief overview of the roots and future implications of Smith's theory of the "invisible hand." My argument is that Smith did not deliberately advocate for the "invisible hand" theory. Instead, the "invisible hand" gradually evolved into an economic concept throughout societal progress. We will explore evidence supporting this interpretation and address some intriguing questions regarding Smith's views on the "invisible hand" and its evolution through the 20th century. Additionally, we will consider how the "invisible hand" framework can offer practical guidance for real-world economic scenarios.**

***Keywords*—invisible hand, Adam Smith, roots and future, fourth term, fifth term, sixth term, seventh term**

## I. Adam Smith's Three Mentions of the "Invisible Hand" and Their Interpretations

In his extensive works, Adam Smith mentioned the "invisible hand" only three times. The first mention of the "invisible hand" metaphor appears in The History of Astronomy (Smith, 1795); the second in the Theory of Moral Sentiments (Smith, 1759); and the third in The Wealth of Nations (Smith, 1776). Through these three works, Smith progressively developed his understanding of social operating mechanisms. From the supernatural metaphor in The History of Astronomy to the social effects of moral self-discipline in the Theory of Moral Sentiments, and finally to the economic mechanism of market self-regulation in The Wealth of Nations, Smith revealed the multi-layered meaning of the "invisible hand" as a tool for social regulation. This concept is not only an explanation of the free market economy but also a deep insight into human behavior and social structures, providing a valuable theoretical foundation for the development of modern economics.

### *A. First Mention: The Metaphor in The History of Astronomy—A Perspective of Nature and Mystical Forces*

In The History of Astronomy, Smith first used the "invisible hand" as a metaphor, not in relation to economics but to describe the unseen forces of nature that drive phenomena. This metaphor arose from Smith's interpretation of early human explanations of natural phenomena: in ancient times, people often attributed incomprehensible natural events to the power of deities, especially among primitive societies and polytheists. In this work, the "invisible hand" refers to a "supernatural, imperceptible force"—essentially a divine power—that governs the operation of the world beyond human control. Smith held a critical and dismissive view of "Jupiter's invisible hand," considering Jupiter and the entirety of Roman mythology as the "lowest and most cowardly superstition" produced by the fears and ignorance of humanity's early ancestors. Here, the "invisible hand" is more of a metaphor for mystical power; though it carries symbolic meaning, it does not directly relate to economics.

### *B. Second Mention: The Preliminary Concept in the Theory of Moral Sentiments—The Reconciliation of Morality and Self-Interest*

In the Theory of Moral Sentiments, Smith gave the "invisible hand" economic and moral significance for the first time. He suggested that people act out of self-interest but inadvertently promote the welfare of society as a whole. Here, the "invisible hand" symbolizes an unconscious coordinating force that converts individual self-serving actions into societal benefits. For example, wealthy individuals, motivated by a preference for luxury, invest in handicrafts and other productive activities, thus providing essential goods and job opportunities for the poor, ultimately achieving a balanced distribution of resources. Smith emphasized that self-interested behavior in society spontaneously generates the role of an "impartial spectator," narrowing the enjoyment gap between the rich and the poor and maintaining overall social stability. The "invisible hand" in the Theory of Moral Sentiments thus laid the moral foundation for his later economic theories.

In this work, the "invisible hand" is closely related to moral principles. Smith believed that social self-regulation arises from the interaction between human moral sentiments and interests, which is inherently linked to economic activities. He emphasized the self-generated order within society, suggesting that morality and interest could be balanced through market mechanisms. Although the term "invisible hand" is not directly used here, Smith's ideas imply that the market mechanism can enhance social welfare through individual actions, moving the concept of the "invisible hand" from a natural metaphor toward sociological meaning. This perspective introduced the notion of social and moral constraints on market behavior, making the "invisible hand" in the Theory of Moral Sentiments both

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moral and nascently economic, marking a transition in Smith's thought from philosophy to economics.

### C. Third and Clear Expression: The Economic Interpretation in The Wealth of Nations—The Market's Spontaneous Order and Resource Allocation

The Wealth of Nations is the key work in which Smith systematically elaborated on the "invisible hand" from an economic perspective. Here, the "invisible hand" takes on a clear economic meaning for the first time. Smith argued that in a free market, each individual, motivated by self-interest, engages in economic activities, yet the market mechanism can spontaneously regulate resource allocation and yield unintended societal benefits. He specifically suggested that when merchants, out of safety considerations, prefer domestic investment, they do so not out of patriotism or a desire to boost the domestic economy. Nevertheless, their actions indirectly promote national economic growth. This view illustrates how the free-market economy operates: each market participant makes decisions based on personal needs and interests, but these dispersed, autonomous decisions establish supply-demand relationships, which, through price changes, optimize resource allocation, encourage specialization, and enhance labor efficiency, thereby increasing societal wealth. Here, the "invisible hand" not only symbolizes the market's spontaneous order but also functions as an unconscious mechanism of economic efficiency. This is the first time Smith explicitly proposed the theory of the "invisible hand." Notably, in The Wealth of Nations, Smith emphasized both economic freedom in trade and the role of government, placing the functions of market and government in resource allocation on equal footing.

### D. Comparative Analysis of the Three Mentions of the "Invisible Hand"

The metaphor of the "invisible hand" evolved across these three works. In The History of Astronomy, it primarily refers to natural or mystical forces without any economic connotation. In the Theory of Moral Sentiments, the "invisible hand" becomes associated with social and moral order, serving as an unconscious force that reconciles self-interest and social welfare. In The Wealth of Nations, it further develops into a core mechanism of free-market regulation, explaining the spontaneous order of market operations and taking on a complete economic meaning.

In summary, these three works demonstrate how the "invisible hand" evolved from a simple metaphor into a market theory. This progression reflects the depth of Smith's thought, showcases the interdisciplinary nature of economics, and reveals the developmental logic of market economic theory. From the evolution of the "invisible hand," we can infer that Smith's theoretical framework was essentially defined for a real society: individuals acting out of self-interest produce unexpectedly positive outcomes through a mediated economic activity, ultimately promoting the interests of others.

## II. Views and Interpretations of the "Invisible Hand" by Other Economists

In the early 20th century, the theory of the "invisible hand" became a hot topic in economic research. Various economists and schools of thought provided multidimensional supplements, criticisms, and expansions to the "invisible hand" theory, enriching and developing the free-market economic theory. Although the "invisible hand" is not a core concept in The Wealth of Nations and appears only once in each of Smith's three works, it has nonetheless become a foundation for modern economic discussions on market mechanisms.

### A. Early Scholars' "Cold Reception" to the "Invisible Hand"

Until the early 20th century, the "invisible hand" was still a relatively obscure term in the field of economics. Due to its limited and subtle appearances in Smith's writings, it was not initially regarded as a core theory. Neither the 1793 The Life and Writings of Adam Smith (Stewart, 1794) nor the 1895 Life of Adam Smith (Draper, 1895) mentioned the concept. Even during the 1876 centenary of The Wealth of Nations, it was not discussed. This lack of attention was due to the fact that 18th- and 19th-century scholars focused more on concrete economic policy design, with little interest in the market's self-regulating function. Additionally, in an era with strong religious undertones, the "invisible hand" was more easily interpreted as a theological metaphor, making it unlikely to receive deep analysis by economists.

### B. Criticism and Inheritance within Classical Economics—David Ricardo

David Ricardo, deeply influenced by The Wealth of Nations, held a somewhat critical view of the "invisible hand." He shifted economic research from production to distribution, analyzing landowners, capitalists, and workers. He concluded that landowners enjoyed unearned rent, while capitalists' profits and workers' wages were at odds, challenging the optimistic view of harmony between personal and social interests advocated by the "invisible hand." However, Ricardo's interest in economics was significantly influenced by Smith, and his research primarily covered money and prices. Ricardo also inherited and advanced Smith's liberal economic theories, advocating reduced taxes and limited government intervention to promote economic growth.

### C. Mathematization by Neoclassical Economics

The Neoclassical school of economics further developed the "invisible hand" theory mathematically, creating economic tools such as supply-demand curves and equilibrium models. Economists like Alfred Marshall, Léon Walras, and Vilfredo Pareto believed that rational individuals, in pursuing their own interests, would be guided by market price signals to achieve market equilibrium. This mathematical formalization gave the "invisible hand" theory a scientific basis, establishing the analytical framework for neoclassical economics.

### D. Socialist Criticism—Karl Marx

For Karl Marx, the "invisible hand" was little more than a sleight of hand. Marx's critique of the "invisible hand" was comprehensive and thorough, mainly found in his Critique of Political Economy (Marx, 1859) He argued that the framework of the "invisible hand" directly linked individual interests to collective interests, ignoring inherent contradictions and conflicts in commodity exchange. Marx contended that the "invisible hand" was not a fixed natural order but a historical product, turning economic relationships with inherent conflict into an imagined harmony, allegedly based on personal and eternal human nature.

### *E. Emphasis on Market Freedom by the Chicago School (Monetarism)—Milton Friedman*

The Chicago School, particularly Milton Friedman, advocated using monetary policy to stabilize the economy, seeing the "invisible hand" as essential for maintaining economic stability and growth. Friedman argued that central banks should control the growth of money supply to maintain market equilibrium, believing that a stable monetary policy, rather than frequent fiscal intervention, would better support the self-regulatory function of the market. This view reflects the monetarist stance on market freedom, advocating reduced government intervention to allow the market's self-correcting abilities to flourish.

### *F. Praise from Neoliberal Economics—Friedrich Hayek*

Friedrich Hayek, a staunch defender of the free-market economy, held the "invisible hand" in high regard. Hayek viewed the "invisible hand" in the market economy as a sophisticated information-processing system that could automatically coordinate the economic activities of millions through the price mechanism without central direction. In Hayek's economic theory, the price system is more than a medium for market transactions; it is a complex mechanism that socializes individual knowledge. Hayek believed that each price fluctuation carried rich information reflecting supply-demand status, technological progress, and consumer preferences, helping the market adjust resource allocation automatically. Hayek's theory further reveals the mystery of the "invisible hand," where free decision-making and the price mechanism coordinate economic activities and optimize resource allocation, demonstrating the wisdom and efficiency of the market economy.

### *G. Rational Understanding of the "Invisible Hand" by Modern Economists*

Modern economists believe that the "invisible hand" mainly operates through price mechanisms and competition within the market. The interaction between supply and demand spontaneously regulates the behavior of economic participants, bringing the market toward clearing. Although individuals in economic activities may focus on their self-interest, the "invisible hand" can ultimately promote the maximization of social welfare. Economists use the "invisible hand" to explain supply-demand relationships, price fluctuations, and resource allocation in the market. They argue that, in a free market, individuals and businesses adjust supply-demand relationships through the price mechanism while pursuing self-interest, achieving efficient resource allocation. For instance, when the demand for a product increases, prices rise, attracting more producers to enter the market and increase supply to meet consumer demand. This adjustment process does not require direct government intervention but is guided by the market's "invisible hand."

However, modern economists also recognize that while the "invisible hand" works in most cases, appropriate government intervention may be necessary in certain circumstances. When formulating economic policies, the government should respect market competition and individual choice to avoid over-intervention. Nonetheless, when needed, the government should take appropriate measures to correct market failures and protect the public interest. This policy approach reflects respect for the market economy and a commitment to public welfare.

## III. The Practice and Insights of the "Invisible Hand" Challenges and Responses in Practice

Adam Smith's "invisible hand" theory has significantly influenced global economic policies, driving the development of market economies. The theory suggests that markets achieve self-regulation through supply-demand dynamics and price mechanisms, optimizing resource allocation. However, in practice, the limitations of market self-regulation have become evident. Issues like environmental pollution, public health, and infrastructure often exceed the market's capacity to handle, requiring government intervention and regulation. Market failures, information asymmetry, and externalities hinder efficient resource allocation, reducing effectiveness and wasting social resources. Smith's theory assumes conditions of perfect competition, information transparency, and rational participants, but these conditions are rarely met in reality.

### *A. Insights for Modern Society*

In modern society, Smith's "invisible hand" theory still provides essential insights for the operation of market economies. The principles of supply-demand relationships, price mechanisms, and competition guide economic activity. Through price signals, the market can spontaneously adjust the supply and demand of goods and services. For instance, when a product is in short supply, rising prices incentivize more producers to enter production; conversely, when a surplus occurs, falling prices encourage producers to reduce supply, achieving supply-demand balance. This self-regulating function drives optimal resource allocation, stimulates innovation, and enhances efficiency.

However, the market does not function perfectly. In reality, market failures and information asymmetry frequently occur. Smith's theory not only highlights the power of market self-regulation but also cautions against idealizing it, emphasizing the need to recognize its limitations. For instance, fields that concern society's overall interests—such as environmental protection and public health—require appropriate government intervention to address externalities that market mechanisms cannot overcome. Additionally, in certain specific economic situations, relying solely on market regulation can lead to inequality or even social instability, necessitating government actions to protect the interests of vulnerable groups and balance market efficiency with social equity.

### *B. Achieving a Balance between Market Mechanisms and Government Intervention*

Smith's "invisible hand" theory reveals the core role of supply-demand relationships and competition mechanisms in a free-market economy, while also offering valuable insights for enhancing modern economic systems. The market mechanism's strength lies in its spontaneity and efficiency, which can encourage innovation and optimize resource allocation. However, the complex conditions under which the market operates, including information asymmetry and monopolistic behavior, make inefficiencies unavoidable in practice. Thus, timely government intervention in certain areas is essential. In today's society, achieving sustainable economic development requires finding an appropriate balance between market mechanisms and government intervention. This balance necessitates not only government support in cases of market failure but also transparency in policy formulation to avoid efficiency losses from excessive intervention.

In addressing global challenges—such as climate change and public health crises—Smith's theory further reminds us that, although the market's self-regulatory mechanism is significant, there is a need for government coordination to meet broader social needs. Moving forward, economic policies should emphasize both market efficiency and social equity, using a dual approach of market mechanisms and government intervention to ensure stable and sustainable development in both economic and social spheres. Through multiple perspectives of economics, morality, and society, Smith's concept of the "invisible hand" provides profound insights into the economic development and social governance of modern society.

## IV. Conclusion

In conclusion, Adam Smith's theory of the "invisible hand" represents a crucial, yet often misunderstood, foundation in the development of economic thought. Through his works, Smith provided a nuanced metaphor that evolved from a mystical description in The History of Astronomy to a moral mechanism in The Theory of Moral Sentiments, and finally into a core concept of market efficiency in The Wealth of Nations. While Smith did not explicitly advocate for the concept as central to his economic framework, his recognition of self-interest driving societal benefits laid the groundwork for the evolution of market theory.

As we have seen, the theory has been expanded, criticized, and refined by various schools of thought. From classical economists like David Ricardo to modern proponents like Milton Friedman and Friedrich Hayek, the "invisible hand" continues to guide debates about market regulation, government intervention, and the pursuit of societal welfare. Yet, Smith's initial insight into the spontaneous order of the market must also be tempered by the recognition that real-world market conditions often fall short of the idealized assumptions of perfect competition and transparency. This has led to a broader understanding that while markets can foster economic growth and innovation, government intervention remains essential to correct market failures and promote social welfare.

In the context of contemporary challenges, Smith's metaphor encourages us to balance the efficiency of market forces with the necessary oversight and regulation that address the complex issues of environmental sustainability, public health, and social equity. As we move forward, the ongoing relevance of the "invisible hand" underscores the importance of maintaining a delicate equilibrium between the self-regulating powers of the market and the guiding hand of government. By embracing both the potential of market mechanisms and the responsibility of governance, we can work toward a more sustainable and equitable economic future.

## Conflict of Interest

The author declares no conflict of interest.

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