

THE INVISIBLE HAND

The key to conservative arguments on the free market is a concept called the "invisible hand." This is one of the most popular terms in conservative literature, coined by Adam Smith (a Scottish professor greatly beloved by his students and peers for his delightful absent-mindedness) in his 1776 classic, *The Wealth of Nations*:

"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 self-interest... [Every individual] intends only his own security, only his own gain. And he is in this led by an invisible hand to promote an end which was no part of his intention. By pursuing his own interest, he frequently promotes that of society more effectually than when he really intends to promote it."

In other words, the "invisible hand" represents all the social good incidentally caused by individuals pursuing their own self-interest. And it is true, the social benefits of the invisible hand are clearly seen in many cases. A businessman who wants to become a millionaire must first come up with a product that is beneficial, pleasing and desired by thousands of customers. By pursuing his own greed, the millionaire also benefits society.

But there are many misconceptions about the invisible hand, starting with the belief that Smith himself was a absolute believer in it. In fact, he was not. Smith actually viewed merchants with great suspicion:

"People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."

Another misconception is that the invisible hand is a form of individualism. It would be hard to call the actions of a baker who spends all day baking bread for strangers "individualism." A more accurate word is *exchange*, and it represents a balance between individualism and collectivism, even if that exchange is ultimately self-interested. True individualism is taking from the group without giving anything back; true collectivism is giving to the group without getting anything back. Seen in this light, the exchange inherent in the invisible hand should deserve the full and enthusiastic endorsement of liberals.

Unfortunately, today's conservatives have corrupted the meaning of Smith's term. They use it to suggest that the pursuit of self-interest in the economy will always (or almost always) result in group benefit, and that individuals should feel free to pursue it. Because this corrupted definition is the most popular use of this term, this is also the definition of "invisible hand" that I use throughout this webpage.

There are many problems with the invisible hand, even in principle. First, it is simply untrue that personal greed will always result in society's best interest: crime is a devastating counter-example. The very reason we have police and criminal justice systems is to prevent the harm caused to society by individuals seeking to enrich themselves at the expense of the group. As long as conservatives admit that traditional crimes like rape, murder and robbery legitimize a government response against them, then it's obvious that extreme positions on the invisible hand are indefensible. The true debate is relative; it comes down to drawing a line between socially-acceptable self-interest and socially harmful self-interest. Who should draw that line? The people should -- this is the *raison d'être* behind democratic government.

Conservatives might object: "We're not talking about criminals who rob banks for a million dollars. We're talking about the market, and the legitimate business decisions of entrepreneurs." The problem here, of course, is the word "legitimate." What determines whether an entrepreneur's actions are legitimate? Clearly, many are illegitimate: insider-trading, price-gouging, unfair trading practices, union-busting, monopolization, lobbying for pork, economic intimidation, graft, polluting, etc. In fact, this entire list of free-market failures

highlights examples of business decisions that were harmful and therefore illegitimate to the public.

And there can be no distinction between a gun-toting bank robber and a white-collar bank robber. The greatest "bank robbery" in history was the Savings & Loan scandal, where S&L owners robbed the taxpayers of \$500 billion. Only a handful went to jail; the rest took cover under the deregulation laws that made their robbery "legal." Liberals argue that this failure of the invisible hand should be punished as a formal crime, just as surely as any other bank-robbery would be.

Another line of argument in favor of the invisible hand is that it is the most efficient way to organize an economy. That is, a free market of self-interested individuals is better at producing general prosperity than a government practicing centralized control. This is true up to a point. Individuals are indeed the experts of their local situations, and can respond much more flexibly and quickly to changing demands than centralized government can. For government to micromanage every little aspect of the economy, the centralized planners would require the knowledge of God. This is the main argument against overly-centralized control.

But that does not mean that government should not govern the larger aspects of the economy, which lend themselves to much easier education. If you have already read the section entitled "Government Success Stories," you know that government played an irreplaceable role in building the basic infrastructure of this country (telephones, roads, electrification, etc.). Government is more suited for strategic concerns; private enterprise more suited for tactical concerns.

The following story is an excellent example illustrating the correct balance between the free market and the role of strategic planners. Conservatives originally quoted this story as a defense of the invisible hand; but, as we shall see, they completely ignored one of its lessons:

The Free Market of SPAWN

In 1988, a team of Xerox computer scientists led by Bernardo Huberman was faced with a problem over its computer network. Each member of the team frequently ran long computer programs that would take hours crunching numbers before coming up with a result, and they were eager to cut down the waiting time. Huberman's team knew that, as with all computer networks, not all computers are in use at the same time. Therefore, the idle stations could be used to speed up the process. Huberman's team devised an ingenious way to divide their long computational tasks into pieces, which then could be sent to several idle computers on the net for work. Once finished, the remote computers would return their partial solutions, which could then be reassembled into a final result. It was an obvious time-saver, but there was a hitch.

It turned out no one could write a computer program that could efficiently schedule or allocate tasks to the various idle computers. The workload kept changing, so no one could figure out in advance where to allocate the tasks. It was also difficult to tell when an idle computer would become busy again. Furthermore, some computers sat idle as they waited for the results delegated to another computer. After almost a year of frustration, the team abandoned its "command and control" approach to scheduling computer time and tried a free market approach instead.

This solution, called SPAWN, creates a "free market" among all the computers on the net. In brief, pieces of computational tasks are given "computer dollars," and they bid for the use of idle computers under an open auction. The computers are programmed to maximize profits. The system works beautifully - less than 10 percent of each station's time is wasted in the auction process. Market prices fluctuate chaotically, and no one can predict which computer will receive a certain task. From this spontaneity and anarchy arises a self-organizing and smooth-flowing system.

At first, conservatives cited this story as evidence of the "magic of the market." However, what they ignored

was that SPAWN works under highly controlled, limited, fixed and unevolving conditions. The role of a strategic planner therefore seems limited. Even so, Huberman and his programmers played a strategic role in setting up the net's entire system of a "free market" in the first place. They constructed its paths of communications and its vehicles of information (called "worms"); they designed all the conditions by which the market worked. Because their market place was brutally simple (compared to a national economy), they only had to tinker with it briefly. Except for the addition of new computer stations, the underlying conditions of the SPAWN market do not change.

But one can easily imagine that events analogous to the economy could also occur within a computer network, and would require the intervention of strategic planners. Just as new technology can revolutionize an economy, a faster and better computer could compel the network's owners to replace the entire system. Just as a national plague would compel the government to declare a federal emergency, the net's infection by computer virus would compel a computer programmer to take defensive measures. Government is charged with national security; computer programmers are responsible for the security of their files against hackers. A natural disaster can wipe out a city's economy; an electrical surge can burn out a computer system. The economy also has problems that SPAWN's free market does not have to worry about. Imagine that a computer station, by some miracle of computer science, could fix bids and engage in unfair market practices, maximizing its individual store of "computer dollars" while increasing waiting time on the net. Would Huberman's team intervene in such a case? Of course they would. If a computer net were as complex as a national economy, you can be certain the intervention of programmers would be every bit as frequent as the government's.

In fact, every second of work that Huberman's team put into making SPAWN -- starting with the very purchase of its computers -- is the work of strategic planning.

Ultimately, the proper role of government is to support and promote the free market, and prevent individuals within it from causing harm to society.

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