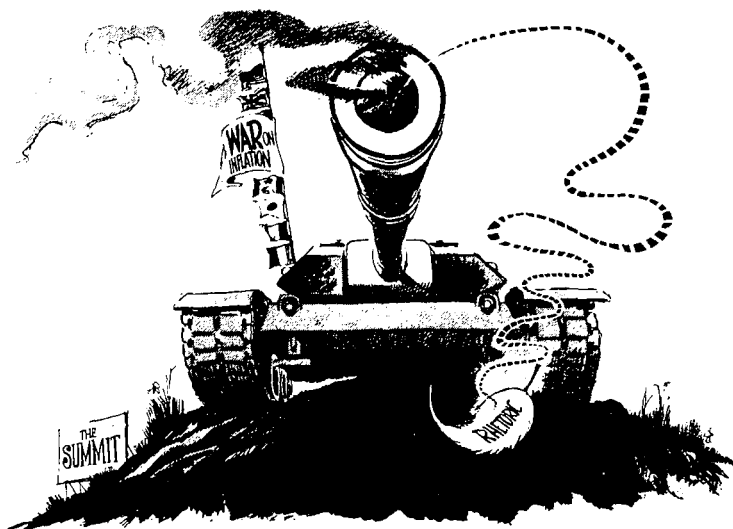


FOREIGN POLICY & DEFENSE



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Don Wright portrayed the July 1977 economic summit of the "Big Seven" Western powers—held in London—as all talk and no action.

attention and cooperative efforts" through truly international arrangements such as the General Agreement on Tariffs and Trade and the International Monetary Fund, write Schaezel and Malmgren. A handful of government heads, meeting intermittently, cannot hope to control world events.

ECONOMICS, LABOR & BUSINESS

*Adam Smith's
Invisible Hand*

"The Selective Interpretation of Adam Smith" by Warren S. Gramm, in *Journal of Economic Issues* (Mar. 1980), Secretary-Treasurer, AFEE/JEI Fiscal Office, Dept. of Economics, University of Nebraska at Lincoln, Neb. 68588.

Generations of capitalist theorists have revered Adam Smith. But the 18th century British economist's reputation as a champion of cutthroat competition is undeserved, contends Gramm, a professor of economics at Washington State.

Smith's fame as a booster of the unrestrained pursuit of wealth began with his pronouncements in *The Wealth of Nations* (1776); the in-

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dividual, he stated, is "led by an invisible hand" of self-interest to promote the public good "more effectually than when he really intends to promote" it. But for all his apparent faith in the invisible hand, elsewhere in *Wealth of Nations*, Smith strongly qualified his support of private property, self-interest, and profit. He doubted that unorganized workers could bargain as equals with their employers. Smith's description of many merchants and manufacturers as deceivers and oppressors of the public showed that he saw dangers in unbridled economic power. He reserved his greatest scorn for monopolistic businessmen.

While Smith did not look to government to police capitalists, he did implicitly look to society. Smith's world was preindustrial. Giant corporations were unknown. The thousands of tiny businesses comprising the 18-century British economy and easy entry into the market, he believed, fostered "perfect competition." Small-town life also diluted competition's nastier side. Since merchants and their customers were neighbors, they were unlikely to cheat each other. Finally, the Protestant ethic discouraged accumulating wealth for its own sake and frowned on "conspicuous consumption."

In Smith's view, the free market did not create social harmony. Social harmony made the free market possible. But, Gramm writes, some modern free market advocates have ignored the passing of Smith's world. They have seized on a few isolated phrases from his work and turned a humanistic philosopher with a strong social conscience into an apologist for untrammelled corporate license.



Although Adam Smith never encouraged greed, by the early 19th century, the "fat capitalist" had worked his way into cartoonists' repertoires. Here, British banker Nathan Rothschild (1777-1836) is shown in a contemporary drawing.

Courtesy of the Austrian National Library.