

The “Invisible Hand” in the context of the modern US economy

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The “invisible hand,” introduced by Adam Smith, is a metaphor for how individuals operating in a free market economy unintentionally contribute to economic efficiency and societal benefits through their self-interested actions. This notion suggests that individuals seeking to maximise their gains inadvertently promote the public good. This article examines Adam Smith’s Theories in the context of the modern US economy, financial market and society. I draw five scenarios for consideration.

Inequality

Critics argue that the “invisible hand” often fails to yield socially beneficial outcomes, fostering greed, negative externalities, significant inequalities and other harms. In the US the inequalities are exacerbating and failing to address the needs of the less privileged. Income inequality in the U.S. is the highest of all the G7 nations, according to the Organization for Economic Cooperation and Development.

See - [Guidance note: US Personal Consumption Expenditures | YCharts \(ycharts.com\)](#)

Laissez-faire

Laissez-faire economists advocate policies and minimal government intervention. The elimination of trade barriers, elimination of government price controls and absolute freedom of contract. In the US, we get two sides of the coin: on one hand, the US has the world’s most efficient market but on the other hand, the US is placing tariffs, levies and other trade barriers on various countries, and even stopping Russian bond payments.

See – [Guidance note: FACT SHEET: President Biden Takes Action to Protect American Workers and Businesses from China’s Unfair Trade Practices | The White House \(whitehouse.gov\)](#)

Monitory Intervention

In the USA, the current Monetary and Fiscal policies are at odds. The Federal Reserve acts a restrictive policy with high interest rates for longer, continuing to sell bonds reducing its balance sheet and “cutting” the money supply. Conversely, the US government and its Treasurer are enacting a stimulative policy with budget deficits only seen during war times. This environment has perpetuated inequality, disproportionately benefiting those with access to the stock market.

See – [Guidance note: Powell signals rates will stay higher for longer | The Australia Financial Review | \(afr.com\)](#)

Self-Interest

The U.S. economy, being the largest globally, offers an efficient and accessible market, attracting investors worldwide due to its high liquidity and low transaction costs. The rise of online trading platforms and brokers has democratized market participation, allowing retail and institutional investors alike to engage in a variety of investment opportunities.

See – [Guidance note: Is the Efficient Market Hypothesis True? | U.S. News \(money.usnews.com\)](https://money.usnews.com)

Market Economy

The competitive nature of the U.S. market, driven by a highly productive workforce and the presence of numerous high-quality companies, results in superior goods and services that cater to consumer needs.

See – [Guidance note: United States Consumer Spending | Trading Economics \(tradingeconomics.com\)](https://tradingeconomics.com)

Smith's theories apply partly to the USA. Income inequality is the highest among G7 nations, leading to a significant wealth gap that fosters social instability. Laissez-faire policies, although promoting market efficiency, often result in economic imbalances.

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