

What Is the Invisible Hand in Economics?



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The invisible hand is a metaphor for the unseen forces that move the **free market economy**. Through individual self-interest and freedom of production and consumption, the best interest of society, as a whole, are fulfilled. The constant interplay of individual pressures on market supply and demand causes the natural movement of prices and the flow of trade.

The term "**invisible hand**" first appeared in **Adam Smith's** famous work, ***The Wealth of Nations***, to describe how free markets can incentivize individuals, acting in their own self-interest, to produce what is societally necessary.

KEY TAKEAWAYS

- The invisible hand is a metaphor for how, in a free market economy, self-interested individuals operate through a system of mutual interdependence.
- This interdependence incentivizes producers to make what is socially necessary, even though they may care only about their own well-being.
- Adam Smith introduced the concept in his 1759 book *The Theory of Moral Sentiments* and later in his 1776 book *An Inquiry Into the Nature and Causes of the Wealth of Nations*.
- Each free exchange creates signals about which goods and services are valuable and how difficult they are to bring to market.

- Critics argue that the invisible hand does not always produce socially beneficial outcomes, and can encourage greed, negative externalities, inequalities, and other harms.