Beyond the Invisible Hand


Remember the childhood game of “telephone,” in which a message is whispered from one child to the next and what the final child hears has little resemblance to the original? Kaushik Basu argues that, similar to a game of telephone, Adam Smith’s concept of an invisible hand to guide the market has been distorted by centuries of reinterpretation.

In Beyond the Invisible Hand: Groundwork for a New Economics, Basu opines that, vis-à-vis a myriad of historical iterations, Adam Smith’s proposition that self-interested behavior can work as an invisible force to maximize social welfare has been misconstrued by mainstream economics. Basu warns that a collection of individuals each focused solely on their own wellbeing can also create a world that is cruel and oppressive, much like the society that Basu references from German novelist Franz Kafka’s The Trial. This is certainly an important issue since much of modern economic thought still builds upon this oft misunderstood theory.

The book’s overarching strength is its readability by a wide audience—from the inquisitive novice to the professional economist. Basu addresses the potential gap in readers’ familiarity with economics by devoting a chapter to refreshing readers on the fundamentals that he will use in later discussion. He encourages readers already familiar with economics to skip this chapter entirely, which makes bridging the reader gap less cumbersome for those interested only in the advanced analysis. It is clear throughout the book that Basu does not intend to artificially reinforce his message with pretentious or esoteric academic language.

Unlike the axiomatic tenet that each individual seeks to maximize his or her utility, Basu postulates that people will sometimes sacrifice personal gain for societal well-being because of their culture and the social norms they follow. While his claims are socialist in nature, he is careful to support them with economic analysis rather than political gusto. By using simple game theory models Basu proves that, even if a society is benevolent, introducing one malicious person into the group can devolve the entire society into hostile behavior.

Basu also extensively examines contracts and how the principle of free contract needs to be violated in some cases to prevent coercion through asymmetrical power structures. In these small-scale social models, Basu draws together and adds to existing research to make convincing arguments in a Pareto framework for morality-based choice. It is difficult to imagine applying these theories globally, though, when many of them depend upon culture. Where cultures differ, there may be room for deviation from the conclusions that Basu draws.

Despite his vow not to delve into the policymaking extension of his theoretical concepts, Basudevotes much of the last three chapters of the book to such a discussion. Assuming that the world’s poverty and inequality should be minimized, Basu’s solutions—global democracy, dollarization, and the redistribution of familial inheritance—would be challenging to implement, and he provides no strategies for achieving them. The believability of such large-scale suggestions depends heavily upon whether or not their eventual implementation would be effective or even plausible.

Basu admits that his solutions to global poverty and inequality have several roadblocks, but he stops short of specifically addressing them in the name of not advocating policy. Instead of fully supporting these solutions, he advocates for an international institution to address global poverty. While this suggestion seems more feasible, it is still unclear as to how effective such an institution could be without full state cooperation.

Regardless of your political credo or the applicability of his global strategies, this book is a stimulating and thought-provoking read. I found myself both agreeing and disagreeing with his arguments, and they left me with several follow-up questions scribbled in the margins of my copy. It is rare that a writer in economics so boldly questions the very basis of modern economics, and for that, Basu is highly commendable.

—Catherine Varner
Economist
Bureau of Labor Statistics
Office of Employment and Unemployment Statistics