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The “invisible hand” and the “social visible hand” in the economic mechanism of the market

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Abstract

The research starts from the hypothesis that the theories of the invisible hand and the statist ones were proven inefficient in reducing the tension between the need of order and governing, on one hand, and wishes, selfish interests, on the other hand. We propose a Third Way - The social neo-institutional economy – through which the “the visible hand” of the society, as a producer of reputation to balance the dysfunctions which appeared between the “invisible hand” and “the coercive hand of the state”. SVH transforms the social opinion into an invisible institution which controls the side slips of the power and the weaknesses of the invisible hand.

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1. Assumptions

The theory of the “invisible hand” and of the selfish spirit is correct, if it is not overstated. Through his nature, the man is shaped, or in other words, he is educated to pursue his interests. Without interests there is no initiative and without initiative there is no efficiency and performance. But to believe that selfishness and the “invisible hand” are sufficient enough to self-regulate the economy, means to consider kindness and morals superfluous, and the fact that the market transforms everything: the good, the bad, honesty and theft into social welfare. Such a conclusion is without logic and uncoated in reality. The human nature is dual: selfishness/ altruism. The stimulus for the thirst of winning is a defining feature of behavior for the economy, irrespective of its type. These tendencies of people must not be tabulated exclusively as avarice and corruption, but they must be considered features of the human behavior which put their fingerprint on the economic relation and as a matter of fact on the

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functioning mechanism of economy. Likewise, we cannot forget that there is a biologic determination in the individuals for obeying certain rules: the majority of people consider that it is for their welfare to obey the norms and the rules if the others obey them too. For instance, respecting the right of propriety makes the negotiation of the rules no longer necessary at each contract. The people have the tendency of cooperation incorporated in their cerebral tissue (Hirschleifer, 1978), and as a result the models which exaggerate the role of the selfish interest are in contradiction with the biologic construction of the human being: reciprocity and the natural altruism of the individuals. The evolutionist biology shows that the issuing of the laws and their obeying have a natural basis whereas the human mind has special cognitive skills which allows the man to make a difference between cooperative individuals and swindlers (Fukuyama, 2011).

The first hypothesis of our theory is the following: the human behavior is not carved according to the selfish interest but also according to the tendency of cooperation, reciprocity and altruism. On a road each individual wants to reach its destination, as fast as possible and stampedes are rarely created. This happens, because if everyone realizes that there is order, each in part will reach his own purpose better and faster. There is no hierarchical coordination but an instinctual- rational cooperation. When does the stampede appear? It appears when panic determines the individual to pass from rational to irrational when the “excess of selfish interest” induces a type of behavior which generates “deficiencies of achieving one’s selfish interest and common interest too”. Consequently, the determiner of the stampede is the panic that creates the distrust that through cooperation, one’s own interest can be achieved. But who has generated the panic? Maybe a disturbing factor, such as a fire alarm, for instance, which cancels the previous experience of an accepted state of normality. In the same manner, things happen in economy, but everything is at another scale. As a result, there is a tension between the need for order and governing, on one hand and wishes and selfish interests on the other. Whenever the solving of this tension was done by limiting the free initiative, the result was less efficiency and performance.

The writings whose origin can be found in the Austrian school, give a major importance, an exclusive one, to subjectivism and to individualism. It is considered that subjectivism allows the economy to become a science which has to “deal with all the human actions and have a whole objective validity, which is paradoxical only at surface” (De Soto, 2011); the economic theory is not based on good only, but is based on things and material objects, it values people, their considerations and consequently the derived human actions (Mises, 1996) ; “the methodological individualism is propped on the fundamental praxeologic conception according to which the human action is eminently individual” (Marinescu, Coord. 2012); “the existence of the conscious and individual human action is the fundamental axiom of the whole system of economic sciences” (Marinescu, Coord. 2012). The supporters of this theory reject any kind of intervention from the state in economy; they are almost on the verge of excluding it. Reality has proven that irrespective of the chosen politics, in a period of more than 150 years, the capitalist economy was based on the intervention of the state. The studies which were carried have shown that from 1853 to 1953, the economy was in recession or depression 40% of the time, and after 1953, since the economy has become Keynesian, it was only 15% of the time (Chrysostom Medaille, Hurduzeu, (Ed.). 2009). The historian emphasizes a paradox: since Margaret Thatcher, 1979, and Ronald Reagan, 1980, the politic rhetoric has been focused on free markets, fewer interventions, a mentor being Frederick von Hayek, but economy has become more and more Keynesian, and the intervention of the state has become the rule and not the exception. For instance, at the beginning of the Reagan administration the national debt of the USA was 700 billions dollars, and at the end of Reagan- Bush administration it reached 2.1 trillions, then in 2008 it was 9.1 trillions dollars (Chrysostom Medaille, Hurduzeu, (Ed.). 2009). These numbers lead us to realize that irrespective of the fact that we talk about the period when the doctrine laissez- faire prevailed, or about the Keynesian doctrine, the presence of the state in economy was major. It can be stated that the functioning of the present economic model implicates, even facilitates the inherent presence of the state. We are not familiar with the historic periods of time when the state was not present in economy. The discussions pro and against the intervention of the state have remained at the same theoretic level.

The second hypothesis of our theory: the search for the causes of the crises in the extremes of the paradigm; the incapacity of the free market to self -adjust, through the “invisible hand” and as a result the intervention of the state is necessary; the intervention of the state in economy has disturbed the mechanism of self –regulation of the

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