Is Adam Smith's Invisible Hand a Pickpocket?

By John Kozy

Theme: Global Economy

Global Research, March 03, 2012
3 March 2012

Well, we're climbing the volcano again. Although nothing physical has changed, the confidence of brokers has been shaken by the American attempt to get other nations to stop buying Iranian oil in support of Israel's fear that Iran is developing nuclear weapons which Israel wants stopped. But as yet, the supply of oil has not been reduced by a single drop. Still the law of supply and demand is being invoked ahead of any drop in supply as an excuse for raising gasoline prices in the United States and perhaps elsewhere too. How convenient!

Three years ago I posted a piece titled The Flaw of Supply and Demand which demonstrates that the so-called law was nothing but an unsupportable notion that functions as a business practice in some segments of the economy. The piece shows that the "law" rests on absolutely no data and has not an iota of empirical support. As a matter of fact, the "law's" refutation is so simple that at least some economists throughout Capitalism's past must have realized it; yet economists have given the "law" a prominent place in economics textbooks generation after generation as though it were a divinely inspired edict. How can anyone understand why this is so? Why do economists continue to acclaim a meaningless notion as an economic law?

Let's look at what actually happens when the law is invoked. Assume that the supply of oil (or any other commodity) drops. According to the law, suppliers raise the price. Why? To reduce demand, we're told. Really?

Let's talk about demand. In the context of the law of supply and demand, it's ambiguous. Let's say the supply of potable water shrinks. Would the number of people demanding water go down? Not in the least. In the U.S., where means of transportation alternate to the automobile are lacking, would fewer people want gasoline than did before the supply shrank? A few, perhaps, but not many. So when an economist says the demand shrinks as the price rises all s/he is actually saying is that fewer units of the commodity are purchased. So the law then means that when the price is raised because the supply shrinks, the price is raised in order to sell fewer units of the commodity. But why would any vendor want to sell fewer units of any commodity? After all, vendors are in business to sell the commodities they offer. So this explanation makes no sense. Prices are not raised to reduce sales; they're raised to increase profits. That's all there is to it.

What economic function does the law of supply and demand have then? Raising the price does not produce a single drop of more oil, for instance. The gasoline available is sold at the higher price to any purchaser until the available supply is expended. The same thing would happen regardless of the price. Those who can afford the higher price will buy all they want and those who can not do with less or do without. What role does the law play in economics? It merely provides suppliers with an excuse for raising prices and picking consumer's pockets.

But whoa, someone is sure to say. The higher prices creates an incentive for new suppliers to get into the market. Not really! Not if the law of supply and demand really works.

Notice how quickly suppliers raise prices when a reduction in supply is sensed and how slowly prices come down when the supply increases. Gasoline prices are climbing daily without the actual drop of even one drop of oil in the market. Watch and see how slowly they come down if they ever do.

But now, consider this. Suppose a new supplier starts to produce oil in the hope of getting in on the increased profits made possible by the higher price. If the law of supply and demand really works, however, the moment her/his additional supply hits the market, the price would drop. Isn't that what the law says? If that were the case, rising prices would not be much of an incentive to increase supply, would it?

But observation does show that new producers do get into the business when prices rise, increasing supply. Yes, they do, but only when the price is unlikely to come down. It is used to provide suppliers with an excuse for raising prices but it doesn't have any effect on reducing them.

True, prices do come down when vendors have more to sell than people want to buy, but the price does not come down because the supply exceeds the demand, it comes down because vendors want to sell what they have. After all, commodities can easily be stored, so the law of supply and demand has nothing to do with it. As a matter of fact, the law has nothing to do with anything.

Nevertheless, the law of supply and demand is important in classical economics. It epitomizes the nature of this economy which exists merely for the purpose of enriching vendors at the expense of consumers. The law of supply and demand demonstrates that mainstream economists not only approve of this thieving economy but esteem it.

Bernie Sanders claims,

> Forget what you may have read about the laws of supply and demand. Oil and gas prices have almost nothing to do with economic fundamentals. . . . the supply of oil and gasoline is higher today than it was three years ago, when the national average for a gallon of gasoline was just $1.90. Meanwhile, the demand for oil in the U.S. is at its lowest level since April of 1997.
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> Is Big Oil to blame? Sure. Partly. Big oil companies have been gouging consumers for years. They have made almost $1 trillion in profits over the past decade. . . .
>
> But there's another reason for the wild rise in gas prices. The culprit is Wall Street. Speculators are raking in profits by gambling in the loosely regulated commodity markets for gas and oil. . . .
>
> So as speculators gamble, millions of Americans are paying what amounts to a "speculators tax" to feed Wall Street's greed.

Yes greed is the culprit, but the greed is only possible because of the economic practices that our economists extol. This greed not only empties the pockets of the people, it endangers the economy as a whole and the nation's security. Wall Street along with these economic practices conclusively prove the truth of Jefferson's view that "Merchants have no country. The mere spot they stand on does not constitute so strong an attachment as that from which they draw their gains." When will we ever learn?

Republicans have claimed for generations that "the business of America is business." But if merchants have no country, a nation whose business is business is a nation governed for those who have no allegiance to it. A more stupid idea could not be found.

"We the People" are not sovereign and the United States of America is not a sovereign nation. The nation's people exist for the sake of its thieving economy, and when the nation completes its decline and collapses, our merchants and those in the economic profession who aid and abet them will bear the blame.

John Kozy is a retired professor of philosophy and logic who writes on social, political, and economic issues. After serving in the U.S. Army during the Korean War, he spent 20 years as a university professor and another 20 years working as a writer. He has published a textbook in formal logic commercially, in academic journals and a small number of commercial magazines, and has written a number of guest editorials for newspapers. His on-line pieces can be found on http://www.jkozy.com/ and he can be emailed from that site's homepage.

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