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## A tale of four ‘economic theories’

### I.

First, let’s just list the four.

1. Classical economic theory – source: Adam Smith,
2. Neoliberalism – source unclear, nevertheless it is the reigning economic policy construct of today.
3. Socialism/communism – source: Karl Marx
4. Interdependent Economy – source: LIEM Giok In (see: [www.liemgiokin.com](http://www.liemgiokin.com))

Before we continue this conversation, let’s first agree on a definition of ‘economic theory’: *Economic theory is a construct of ideas, points of view, that aim to put forward a way to increase and maintain the economic welfare of society and its people.* Do you agree? If you want to make suggestions for improvement of this definition, please, let me know. Let us here remind ourselves of the etymological source of the word: *oikonomia*, which is Greek for ‘the art of management of the household.’

### II.

We will now analyze if each of these four economic thought constructs corresponds indeed to the definition. We will elaborate more on each of them in section III.

#### 1.

The title of the seminal work by Adam Smith: *‘Inquiry into the Wealth of Nations’* already indicates that what he presents are his views on how to increase the Wealth of Nations. Therefore, his well systemized thinking can be considered as an economic theory. Whether you agree with Smith’s ideas or not, it is an economic theory.

#### 2.

In fact, only critics of this system call it ‘neoliberalism’. Its proponents would rather call their stance: liberal, free market oriented, political right, and such. But what is the systematic and general theory behind this thinking? Free market? If it suits them they will preach open borders (=free markets), if it does not suit them they will argue for closing the borders (=protectionism). Less governmental and centralized intervention, and more individual freedom instead? Well, when it harms them they are against government intervention (like consumer price controls), but if it benefits them they love government intervention (like subsidies for their sector or tax exemptions for their corporations). Fact is, neoliberalism is just a heartfelt outcry (coupled with power and thus political influence) that shouts out loud: “don’t let them take anything away from me, and let me grab anything I can.” This is *not* an economic theory. Neoliberalism is just a political lobby effort for those who profit from the policies they lobby for. Again: this is *not* an economic theory. But surely, they disguise as one.

#### 3.

This may be the biggest shock in this piece for readers. Marxism is *not* an economic theory, it is a *class theory*, aiming at equalizing all citizens into one class, the working class. It also is a political programme to make that equalizing happen through violent revolution. Please, read Marx’s *Das Kommunistische Manifest* to verify that. Nowhere in the works of Marx (or other socialists/communists), there is a systematic theory about how to increase the wealth of society as such, in spite of Marx’s endless dissecting of ‘price’, ‘wages’, ‘value’, etc. Even when economic issues are the subject-matter of your theory, that in itself is not sufficient for a system to qualify as an ‘economic theory’. I can dissect and describe all the organs of a body to the smallest detail, that does not mean I am practicing medicine. For that I have to come up with methods and treatments that heal

sicknesses. Again, the entire thinking of Marx (and friends) is geared towards doing away with class difference in society. Of course, anyone can feel sympathetic to such ideas or not, but it is *not* an economic theory.

4.

*Interdependent Economy – from political economy to spiritual economy* (see: [www.liemgiokin.com](http://www.liemgiokin.com)) starts by standing firm on the ground of the definition of what economic theory is. That is: presenting ways to make policies that *aim to increase and maintain the economic wealth of society and its people*. To detail further how to do this practically, we can formulate it as follows: *to take care of people* (so they can live). This again would lead to the still more concrete policy mandate of *keeping all people involved in the cycle of the economy* (production, consumption, production,... etc). *Interdependent Economy* explains a view that economic policy must aim directly at the economic welfare of people. It furthermore proposes that government intervention should focus on basic levels (every society defines its own ‘basic levels’). If that is provided for and taken care of by collective oversight, then individuals can deploy their own initiatives and self-responsibility to make choices as to how they want to live their lives (yeahhh, liberalism!). May I point out to those who are proponents of systems that merely focus on individual freedom that, without basic life there is no individual, at least not an empowered one. To summarize it to its briefest core: *Interdependent Economy* explains that if we aspire to have a prosperous society, we need to take care that each and every individual is sufficiently empowered. It is people that make the economy, it is not economy that makes people. I hope you agree that we can conclude that number four qualifies as an ‘economic theory’. Please, consider if you think it is a useful one.

### III.

1.

Classical economic theory – proponent of giving free roam to individual’s choices with regard to such aspects as entrepreneurship, trade, price-building, markets, wages for labour, etc. It argues that choices made by the individual, who primarily wishes to serve his own interest, will, naturally, also benefit the economic interests of society. Well, individuals - entrepreneurs and others - have been doing that since beginningless time, and are doing that still now in this 21<sup>st</sup> century. So, on the one hand, one could say that free market economy is a natural, inborn thing. But at the same time, many circumstances that were a reality at the time of Adam Smith have been replaced by other realities (like: democracy, globalization, and the fact that speculation<sup>1</sup> now constitutes the main part of economic activity measured in money units). So we can ask the question if classical economic theory is still relevant today. In this little piece, I will not elaborate on this topic. If you want to know more, please refer to my trilogy where I deconstruct today’s confusions and misbeliefs of the prevailing ideologies and policies. (<https://www.liemgiokin.com/columns-and-articles.html>)

2.

In part II. we already explained that neoliberalism is a political lobby programme, not an economic theory. But neoliberalism has managed to disguise as one, and together with the *status* that in this world we have decided to bestow on economics (we even award Nobel prizes for that!), and also because no normal human being understands anything of what ‘economists’ are theorizing about – a case of the emperor’s clothes – neoliberalism has managed to keep standing. Are neoliberals so clever, or is the rest of the world so stupid? Please, refer to the same link as above for more clarification on this point. Let me just say one thing here: it is the *Indicator of the GNP* (Gross National Product) — that must always *grow*, whether your political stance is left- or right-wing — which is the smokescreen behind which neoliberalism hides and can pose as ‘economic truth’.

3.

The political left has a problem. It is kind of based in socialist theory. Kind of, because nowadays nobody believes anymore in a system of centrally organized production and distribution, or bringing down all citizens to the level of the working class. It is very sympathetic - and I myself am all for it - that the political left stands up for the interests of our economically weaker fellow citizens. However, for that we need to re-distribute income from the rich to the not so rich (=taxation). Problem is: before you can re-distribute wealth, it first has to be created, and the political left or socialism has no theory for that. It is not an economic theory, it is a *class theory*. So, in order to *create* wealth, left needs to fall back on classical economic theory (or even neoliberalism that poses as ‘free market’ economic theory). And that’s the situation we are presently in. Does anybody see a way out of that left-right incongruency?

4.

Let me summarize *Interdependent Economy* to the essential core of its policy proposals. Abolish the statistical tool of GDP (and similar national accounts), and replace it by the People/Quality (P/Q) indicator, that counts and monitors the economic welfare of People. If you want to know more about this, please, refer to Part II, Chapter 3 of the book *Interdependent Economy*. The chapter is titled: *The Measure of Good Economy – Money or*

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<sup>1</sup> Speculation: making money profit by creating zero user-value.

People?' You can read it here:

[https://www.liemgiokin.com/uploads/2/1/4/0/21403796/the\\_measure\\_of\\_good\\_economy.pdf](https://www.liemgiokin.com/uploads/2/1/4/0/21403796/the_measure_of_good_economy.pdf)

Thank you for wanting to read this tale of four 'economic theories'.



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