

*Let's deal, once and for all, with the thinking
that free market is prime for society's wealth creation
Part 1 of a trilogy¹*

The term or ideology of the 'free-market', liberal economy, or, as the opponents call it, neoliberalism is far from well defined. Many parties argue about the good and bad of it. But is it really clear to them what exactly this word means, or what the sound theory under this political programme is? Let's dive into that question. So, where there is 'neo' there is also 'classical'.

Not to go into too much theoretical and academic detail, let's look at how Adam Smith² saw this 'invisible hand', that magic wand that would make all well for society as whole, while all the same, individuals would pursue their self-interested aims – hence 'liberalism'. And state intervention was not wanted nor warranted.

The context for Adam Smith's ideas is 18th Century England, a time when kings, noblemen and aristocracy ruled. It was their economic interests that prevailed in the law and policy-making. Hence, Smith's 'liberalism' must be understood as freeing the economy from the interference of these ruling classes. Instead, so he argues, the natural forces of the market would serve a nation's economic interests best.

In Smith's entire work the term 'an invisible hand' occurs only three times.

- 1) in his 'The Theory of Moral Sentiments'.
- 2) in his 'An Inquiry into the Cause of the Wealth of Nations'.
- 3) in his 'History of Astronomy' (this does not apply to economics and will not be considered further here).

1) explains the behaviour of a landowner who, naturally, will make his labourers work hard to achieve the greatest harvest. However, he can only consume so much. He has no choice but to distribute the superfluous produce among his labourers. In this way, society benefits from the self-interested behaviour of the capital-owner.

2) gives the example of an industrialist who will prefer to manufacture his goods in his home country, rather than in foreign countries. It is safer, easier to oversee, and thereby serves his interests better, even if he could make more profit if manufacturing abroad. This creates domestic employment and economic activity. In this way, the self-interested behaviour of the capital-owner serves the nation.

Little did Adam Smith know how conditions of trade and investment would transform in the times to come.

Come 20th and 21st Century.

As to 1): the landowner will not distribute the superfluous produce amongst his labourers, but sell it on the market, preferably export it to foreign markets. In fact, his farm is geared toward the

¹ This is the 1st article of the Trilogy: *Dismantling Theories and Ideologies – Waking up to our Real Economic Needs*.

² Adam Smith (1723 -1790), a Scottish philosopher, best known for his work 'Enquiry into the Wealth of Nations', and widely considered as the founding father of economics as a distinct discipline.

growing of cash crops, to sell and to make profit, and not to feed himself, his family or the people of the land. Workers remain exploited at low wages, and do not share in any profits of the commerce, or are even made redundant as a result of mechanisation in agricultural industry. As to 2): not manufacturing abroad? No need to elaborate here ... globalization has made the entire world accessible and attractive to industrial investors: we call these corporations 'multinationals'. And what is more, the interests of the world of finance are always better served by markets with no borders, by free trade, by free roaming of capital around the globe, and the freedom (liberty) to accumulate private wealth for some, even at the cost of the lives of many.

So, with this we can put 'classical' liberal economic theory to bed, once and for all. The idea of the invisible hand, novel then, has become obsolete and out of date today.

However, the free market paradigm still reigns – from the political left to the right, at that. How come? If not based in classical and well-established theory and practice, then where does modern-day liberal economic thinking find its basis, in what theory and in which practical reality? Certainly, there is a host of 'economists' who explain impressive sounding models, supported by statistical data processed by computers, that go by the invention of a rational 'homo economicus', who, fully informed about all his options, always makes the best economic choice. But we will forego all this, for now, and first tell the story of the real economy we all experience.

We can distinguish three spheres.

1) First, there is the economy of *many individual actors producing some kind of user-value*. All these actors are, more or less, of equal strength and power. In this way, there can be competition between the actors, and the free competition is, more or less, fair.

Such actors are

- Those who work for wages – they compete at labour markets and at markets for consumer goods and services. – This is okay, in principle.
- Those who undertake entrepreneurial endeavours – what they need and compete for are personnel (human resource), (raw) materials, (technical and other) knowledge, and also finance. And then, most importantly, they compete for outlet markets, local or global – this is also okay, in principle.

2) The second sphere is that of *large corporations*, so large they can only exist at *multinational* level.

- First, there is the group of, more or less, equally strong competitors, and so there is, more or less, fair competition between these enterprises – and that is okay, in principle.
- But then, there are some that hold such strong and powerful positions as to achieve monopolistic status – well, here things become more awkward. Some monopolistic producers of a certain good may make sense and serve the common good, but others exploit their power for still more expansion, and easily out-compete others, who then must lose their source of income – I would say, this is a negative in principle, unless proven otherwise.

Do we, the human family of this world, really need huge corporations that overpower others, in order to serve our needs? Or are we better served by smaller-sized industry evenly spread in power and places?

3) But now the third category! This one does not deserve the name 'economy' at all. The players here conjure up profits for themselves by producing absolutely nothing for people or planet, *and that is not economy*. This sector is facilitated by a 'financial sector' that, I can safely say, in numbers of turnover has grown enormously in the past few decades and now easily outperforms

the real economy that produces user-value. Speculative transactions, bank derivatives, exchange markets for stock, currency, energy, commodities are some of the ‘products’ of these empty trades.³

Here I want to point out one sector in particular: speculation in real estate. Houses to live in, business space for entrepreneurs, and also large buildings for governments and organisations that serve the common good, are not helped by prices that mostly rise, and sometimes fall, that are volatile and leave us with insecurity. Yes, the real estate traders make profits beyond the service that they give, but those moneys are not countered by any value for habitats.

Such trading in nothing, hot air, balloons that will inevitably bang one day must not be regulated, taxed or supervised, they must be drastically and wholly eliminated, outlawed and erased from our consciousness as having anything to do with ‘economy’.

It is my humble opinion and advise to firmly address this issue first. Then, and only then, can we also effectively mend the wrongs in the 1st and 2nd sphere that are the real economy.

This is not to dislike people who are billionaires, who knows, some among them may be decent human beings. But the unbalance between the 1% and the rest whose lives are being diminished by the upheavals of an ‘economy’ of absolutely nothing, is something we must decry. For imbalances, by definition, are non-desirables in a good economy.

The correspondence between this fake economy of empty numbers and the struggle for survival of our daily lives is not easily seen. Deeper investigation, quantification of the impact, should be done by experts in the field. So we will have a leg to stand on against the powers that are, who, left to their own devices, will never be agents of change.

And we, actors of the real economy of all nations – wage-earners, self-employed or entrepreneurial producers of real goods and services – for individual consumption or for the common good, we must unite, and increase our understanding that an ‘economy’ of empty numbers should not be.

**First: stop being part of it yourself and turn your activity to something real and beneficial.
Then second: spread the message, so we can take back the power that belongs to all of us.**

So now, how about the better understanding of the modern-day economic theorems that propagate free and private markets as the best road to collective wealth. If not based in the classical theories of the founding fathers of political economy, then what are they based on? On any sound theory or argumentation?

We will address that subject-matter in the coming 2 sequels of this trilogy ‘*Dismantling Theories and Ideologies – Waking up to our Real Economic Needs*’. Please, find all the articles of this trilogy here: <https://www.liemgiokin.com/columns-and-articles.html>

This article is a project by



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³ For more on this: *Interdependent Economy*, Part I, Chapter 11: ‘*Accumulation of Capital and Quality of Life*’
Also see: [The rise of money trading has made our economy all mud and no brick | Alex Andreou | The Guardian](#).