Orthodox economic thinking: a cultural delusion

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Preamble

We are all familiar with the notion of “error”. At its simplest, it is the holding of a belief is not true. Few will argue with the “error” judgement when applied to simple statements of logic and mathematics. Two plus two does not equal five, and anyone believing it is in error.

Statements about the world are also largely uncontentious when they can be easily verified. There is more scope for disagreement here in that most statements rely for their meaning on a common sharing about the definition and meaning of terms employed in the statement. For instance, if one states that humans reproduce sexually, there has to be a common understanding of what a human is and what sexual reproduction involves before we can meaningfully assess the truth-claim. Experiments designed to verify the statement could involve some complexity, depending on how pedantic challenges to the truth of the statement are. We don’t typically go there, because nowadays we mostly all agree about this.

From a behavioural angle, recognising error is important because it stops us from making mistakes. More specifically, it helps us avoid the unexpected and unwanted consequences of actions (or inaction) that follow from our erroneous belief.

The concept is harder to use in contexts where we commonly accept that inconsistent judgements can legitimately be applied to the same event. One can determine if a musician plays a wrong note when playing from a written score, but, when improvising, there is no simple standard that can be used to help with this judgement. (The musician improvising may rate their own playing, less in terms of black and white adjudications, but nevertheless with some concept of better-or-worse being appealed to).

Recognising error is important, because when developing arguments we rely on certain premises being true to advance us to more complex understandings. A person may gone through many conceptual steps to arrive at a belief they express. After a while these steps are forgotten and not held in the conscious mind. A proposition might validly follow from presented premises, but if the premises themselves are uncertain the resulting proposition becomes open to question. And the premises referred to may become uncertain because they in turn rely on a chain of premises leading back to the most fundamental ones, ones which form the building blocks of our understanding of the world.

Hopefully, none of this is controversial. You might wonder why I have used so many words to state the obvious.

The reason is because I seek to identify and question certain of the building blocks of economic thinking. Almost everything I write is built on the premiss that these are unsound and therefore economic thinking needs to reorientate itself.

The problem with critiquing building blocks is that there’s nothing beneath them, so nothing to undermine, as it were. All one can do is poke about at the building block and see how it fares.

Really, I'm just a salesman with a new product looking to cast doubt on an old one. One can never fully justify the attack. But one can start to say that if you build a house with these blocks you will most likely get these results. If you build a house with different blocks, other results become possible.

So the interesting writing, then, involves constructing these new houses and seeing what they look like: a heuristic approach, if you like.

That's not for this paper, though. What I am doing here is prodding at the old blocks. It may not demolish them entirely, but it will hopefully provoke some thought.

What are they

1). The laws of economics are like the laws of nature.

Not so. We can change the rules of economics and the laws will behave differently. There are limits to how we far we can alter nature and nature will always follow its own laws. Nature's laws are discovered; the laws of economics are manufactured.

2). Wealth is an expression of financial abundance

Incorrect. Wealth is something whose possession brings value to an individual. Value is rooted[1] in human biology and psychology. It encompasses wellness and access to non-financial capital (see below). It is not sufficient to be able to express wealth in monetary terms to conclude that wealth and financial abundance are the same things.

3). Money is wealth

Again, this is not precise enough. Money is a claim on wealth by an individual or corporate entity. Insofar as it is backed by law, money represents entitlement to wealth.

4). Generating revenue is generating wealth

No, generating revenue just changes the ownership of wealth, i.e. who is entitled to that wealth.

5). Money is finite and disappears once spent

Incorrect. It may seem that way to us as individuals, but money once created potentially circulates in the economy. One coin can potentially buy all the goods and services on sale[2].

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[1] In other words, that's its source. Nothing can be said to be of value if it is not important to a sentient being, either for its survival or well-being

[2] Of course, it would be difficult to imagine this happening in practice, but one role of money is to facilitate the exchange. If all the goods and services were priced at one coin, the holder of that coin could make a purchase, allowing the recipient to do the same and so on until all goods and services offered had been purchased.

6). Capital is a financial concept

In common usage It is mostly a financial concept. Furthermore, its meaning may have derived from its use in financial settings. However, in its broader meaning “capital” represents something of enduring value. If, as suggested above, “value” is rooted in human psychology and biology then “capital” is too. As such its meaning is derived from the value identified within natural systems and other artefacts and institutions. Financial capital is an ownership claim on true capital. However you choose to sub-categorise “true” capital, it’s misleading to represent the sub-elements alongside financial capital: for example, natural and physical capital may be peers, but financial capital is a parasitic upon them both.

7). Economic growth is always positive

Not always. Economic growth is a positive only if the net product is a gain in true capital over the long term. Financial advantages accruing to a nation from economic growth simply increase that nation’s entitlement to true capital without expanding it in any way.

8). Creating more jobs is always a good thing

Incorrect. The social contract an individual has with the state is one where the individual can expect and demand welfare protection and a share of the wealth in return for making a contribution to society and respecting the law.

If there are plenty of employment opportunities then an individual can take these up, make this contribution and receive a share of the wealth. The wider the opportunities, the more likely an individual will find something that they will find personally fulfilling. Thus, from an individual’s perspective, the creation of jobs is nearly always seen as a positive.

From an economic angle, an employed individual can contribute through taxation to the public purse, enabling the state provision of healthcare, education, policing, defence and welfare. So, if it’s a positive both a personal and economic good, why am I saying that the statement “creating more jobs is always a good thing” is incorrect?

First, let us be more precise about what an individual wants, and it’s not simply to work. Indeed, the notion can be cruelly comical when one reflects on the kind of work that people have had to do in the past to survive. Physically and mentally demanding, often dangerous, are we really going to tell the navvy, miner or sex-worker of old that their work is what they have always wanted?

More accurately, individuals want an income, a share of the common wealth, which they can use to provide for themselves and their families with sufficient spare to enjoy other less essential pursuits that contribute to their sense of well-being. Most also want to feel they contribute to society through their work: that what they do is contributing to the common good. This provides them with a sense of self-worth.

So, a job is good for an individual if it delivers on both fronts. But it’s important to realise that you cannot just say that a job is unambiguously a good thing, if it fails on either of these two counts.

On an economic level, we can see that employment generates revenue, but we have already noted that this is not the same thing as generating wealth. If the work involved is both inessential (i.e. involves consumption beyond the level needed for sustenance) and results in true capital being denuded then it is not a net positive contribution to society, for all the revenue it may generate. If an individual comes to believe that their job is detracting from the common good, the job may not provide them with any feelings of self-worth and may indeed make them cynical, insular and selfish.

Afterword

Many people may object to calling these statements incorrect or errors. Some are only "errors" if you choose to define the terms my way, and it's not for me to dictate this to the world. Fair enough, but I think we are now getting close to understanding the "blocks" I referred to earlier. What's different about these blocks may just be definitions. But what we can build with these blocks is fundamentally different to an edifice built on a system that does not treat these eight statements as mistakes.

The main insight to be gleaned from this analysis is that no purely economic measure can deliver any increase of wealth. Wealth is embedded in true capital and therefore those activities that denude true capital are basically harmful, even if they are revenue-generating or contributing to economic growth. Natural capital is central here because humanity cannot go forward without it. Moreover, all the other capital is produced by human activity. So whilst it might be legitimate to denude Natural capital to enhance Physical capital (e.g. trees might be felled for building materials), economics is about preserving and enhancing capital.

Financial systems, on the other hand, are fundamentally about determining who has access to the wealth. So when economic growth yields financial advantage, unless the true capital has correspondingly increased we have a situation where one nation (or some within) is advantaged at another's expense and/or the current generation is advantaged at the future generation's expense.

August 2026