

Political ideology and economics

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Introduction

At election time politics is sometimes reduced to “It’s the economy, stupid,” and it is certainly true that politics and economics are inextricably related. But it can be difficult to identify the relationship between them, as politicians try to appeal to an ideological base at the same time as they promote economic measures that respond to an immediate popular need or a tactical opportunity that is at odds with the ideology. The purpose of this paper is to present a high-level normative definition of that relationship which identifies a politician’s ideology by his or her actions in the economy, and it can be seen as an adjunct to an earlier work on the correlation between economic variables and features of social evolution (Aslaksen, 2021). The approach taken here is to first develop views of both ideology and economics in a top-down fashion, starting with the simplest descriptions and then developing them to suit our purpose.

There is nothing new in the material presented; both economics and political science are, on the individual level involved here, extensively treated in textbooks and journal articles. For example, two articles of relevance to the present paper are Douglass North’s 1988 paper and that of Christian Bjørnskov from 2005. Both papers investigate the influence of society’s political ideology on its economic performance, but they consider this ideology from different

perspectives; North through the perspective of transaction costs, Bjørnskov through the perspective of the political orientation of the governing political party. What is original and hopefully useful in the present paper is the identification of a particular connection between the economic actions of a government and its true political ideology, no matter how it likes to present itself to the voters.

Political ideology

A political grouping, such as a political party, is identified by its policies in response to perceived problems and inadequacies in society and by its promotion of these policies at all levels of government. These policies are developed through a process involving discussions, research, analysis, and evaluation within and between groups of party members at all levels, and the inputs to this development process are the assumed or actual values of parameters characterising the state of the society, such as the *per capita* GDP, Gini coefficient, employment data, net immigration rate, indigenous incarceration rates, consumer confidence, and so on, just to mention a few of the vast number of such parameters being collected and handled through electronic data acquisition and processing. But in addition to these data, the process of formulating corresponding policies is not a mathematical process in the sense of a one-to-one correspondence between the set of parameter values and

the resulting policies. The process involves an *evaluation* of the data, an evaluation based on a *belief* in the relative importance of the parameters and in their normative values. Any belief is personal, but when it is expressed as a consensus among a group of people it can be considered as the *political ideology* of that group.

To develop our understanding of political ideologies we need to first take a step back and agree on a high-level understanding of the environment in which a political party operates, which is a *society*. As a point of departure, a society may be defined as a group of interacting humans, and as the human has not changed significantly over the last 10,000 years, the evolution of society is the evolution of the interaction. That is, the *essence* of a society — what at the highest level of abstraction distinguishes two societies — is not its members but their interaction. Or, conversely, for a society the greatest value of its members is their ability to interact, which, at the level of simplicity of this presentation, we may consider to be the same for every member. The evolution of that interaction has been one of increasing intensity and complexity so that today this interaction and its consequences constitute a very complex subject matter, encompassed essentially by the social sciences. We approach this complex subject matter by asserting that, at the highest level of abstraction, a society is characterised by a measure of the individuals' perception of the concept of society and of their relationship to it. At the one end of the scale the individuals consider themselves to be a collection of individuals like themselves interacting to form an environment in which they can pursue their individual activities based on their evaluation of the resulting benefit to

themselves. Essentially rejecting the concept of a society as having its own reality, as was the case with Margaret Thatcher (Thatcher, 1989). At the other end of the scale individuals see themselves as integrated elements of society; there is no individual existence outside of society. They are like the cells of an organism, and individuals that break out of this framework and act only for their own benefit and growth, without considering the implications for the whole, are like cancer cells.

Closely related to the two extremes of this characterisation, the interaction between society's members may be considered to be of two types: One type is where an interaction is defined by its associated activity or task: a particular *transaction*. The interaction is in the form of a temporary cooperation of the members of the group participating in the transaction, and enables extensive and complex activities, well beyond the capability of an individual, to be performed. But once the transaction is completed nothing remains as a change in the participants' understanding of society, the interaction itself has no purpose beyond facilitating the transaction: an instrumental value. And, correspondingly, the value of the members to each other is defined solely in terms of such transactions. This type of the interaction between society's members as transactions and with it the assessment of the value of the individual as defined by its ability to participate in and benefit from transactions can, for obvious reasons, be characterised as *materialistic*. The evolution of this type of interaction in terms of the cost of transaction is treated in North (1988).

The other type of interaction is one that is intended to have a lasting effect on the par-

ticipants in the interaction; it is an exchange of ideas or information that influences the participants' beliefs and their understanding and evaluation of their fellow members. The interaction leaves an imprint in the minds of the participants: it forms a *social bond* between them. This bond is formed by the alignment of two ideas (or beliefs), one in each participant, and thereby creating a new idea shared by both. Such a shared idea is different to an idea particular to a single individual due to the knowledge, by both participants, that it is shared and that this implies an intention to preserve it. The type of interaction may be characterised as *idealistic*.

In any society the interactions between its members will reflect both of these types; this is obvious from the fact that transactional interactions rely on some form of common understanding, the most immediate one being language and the meaning of words. What is significant in the following discussion of ideology is the relative importance of the two types.

A different, but related, aspect of the interaction arises from the observation that our actions are determined by our physical circumstances and the information available to us at the time of action — information stored in our memory and the information provided by our senses at the time of action. Accordingly, humans can be characterised in three ways: in terms of what they are (biology), in terms of what they do (production), and in terms of what they think (information). The first of these is not directly relevant to our purpose (not least because of our assumption of identical interaction capabilities), but the other two constitute the characterisation of the individual as an actor (*Homo faber*) and as

a processor of information (*Homo cogitans*), respectively, and the complementarity to the previous characterisation is obvious. As action is preceded by information it is possible to consider the information domain as the primary, as the driver of action, and hence an ideology, although consisting of information (beliefs, ideas, understanding), must also be seen as a *process* that results (or should result) in action.

As defined in Wikipedia, a *political ideology* is “a certain set of ethical ideals, principles, doctrines, myths or symbols of a social movement, institution, class or large group that explains how society should work and offers some political and cultural blueprint for a certain social order,” but it then goes on to say that “political ideologies have two dimensions: (1) goals: how society should be organised; and (2) methods: the most appropriate way to achieve this goal,” and it is comparing these two statements that will provide the kernel of this current essay. The second statement focuses on the organisation of society; the ideology must define what society should be like, what it should look like. It implies a materialistic view of society, with the interaction as transactions and the individuals as actors and production elements that can be organised in a certain structure. And any statement about *why* it should have this particular form will also be in materialistic terms: a better life as measured by disposable income, attained level of education, life expectancy, and so on.

The last part of the first statement is quite similar to the second statement, but the first part is formulated in terms of ideas and beliefs, and this is where the basic differences between political ideologies lie. Any political ideology will purport to promote the well-being of society's members, the dif-

ference between ideologies is best described by how the members see themselves in terms of their activities and capabilities and with the interaction between individuals as transactions enabling these features, or as the interaction producing shared beliefs as the defining factor. These shared beliefs and the commitment to them become a characteristic of the society as *public commitments* and are realised in the form of *public services*. The concept of a public service needs to be clearly understood as a service that is defined by government and made available to all members of society, but that is not necessarily free. For example, education might be free, but transportation might require the user to pay. The considerations that determine the size and structure of the payment are, in principle, no different to those that enter into determining the taxation system, and we shall, in the next section, consider payments for public services to be a form of tax. Free or not, a public service is a government obligation and responsibility.

Every society contains both types of interactions, as transactions within a society require a framework based on a public commitment to shared ideas of behaviour and the realisation of these ideas in the form of a legal system provided as a public service. And in most nations defence is provided as a public service (although private forces and the use of mercenaries have a long history). Which activities should be provided as a public service and which should be subject to transactional interactions is one of the major coordinates used to distinguish between the two ideological poles of *neoliberalism* and *socialism*, and two main areas of contention are education and health care. But even if a service is considered to be a public service, such as transportation

and energy, there is the issue of how it is to be *delivered* — by private industry or by public bodies, providing a second coordinate, as shown in Fig. 1. Although the two coordinates are not quite orthogonal, as indicated by the location of the ideologies on the diagonal, it might be useful to view an ideology as being located within this two-dimensional space. As it stands, no scales are provided to give a quantitative meaning to a location within this space, that will be provided in Section 4.

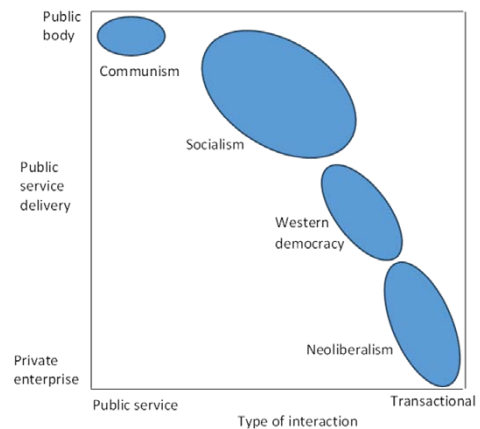


Figure 1: A two-dimensional space for characterising political ideologies in terms of the type of interactions between its members. The horizontal axis defines the extent to which the interactions are in the form of transactions or as public services; the vertical axis defines the extent to which public services are delivered by public bodies or by private industry.

The economy

While politics and economics are closely linked, they are, of course, quite different in many ways. And while economics is sometimes described as a “black art” with a crystal ball as its main tool, the fact is that economics, as an intellectual discipline, is far better defined and developed than political science. In particular, the economy of a

society is structured on many levels, from the simplest to a very detailed structure, as documented e.g., by the National Accounts, and in this section we take advantage of this in what might be called a top-down fashion. The result is an idealised and highly simplified model of the economy.

The starting point is to view the economy as consisting of only two components — production and consumption, as illustrated in Fig. 2.

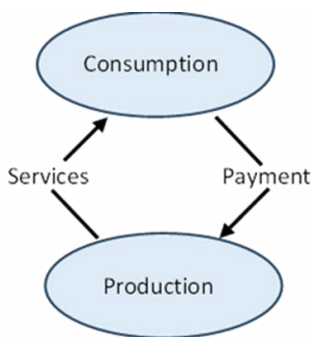


Figure 2: The economy represented by two components — production and consumption. Throughout this paper, “services” are to be understood as “goods and services.”

Figure 2 presents a highly simplified view of the economy, and a first simplification is that it is a static view, a snapshot, it ignores the dynamics of the economy in the form of growth and transformation. A second, and related, simplification is, obviously, that it neglects the concepts of profit and the accumulation of capital, which is the driver of growth. The dynamics of the economy and its relation to capital formation, as well as the significance of the Dual Economy (see below) in this regard is treated in detail in an often-cited book by Thomas Piketty (2014). A third simplification is that it hides the internal structures of the two components — consumption is performed

by an unstructured entity which we shall think of as “Population”, and the services are end-products that reveal nothing of the complex structure and processes within production that determines the price of those products, represented by the Payment; they are simply produced by entities we shall call “Enterprises”.

According to the picture of society presented in Section 2 the services are of two types, public services and transaction services, so that we can now structure “Production” into two components: Public Enterprises and Private Enterprises. To this we must add a third component — Government — for the management of the interfaces between Public and Private Enterprises and of the interface between them and the Population, resulting in the particular structure of the economy shown in Fig. 3 which, for obvious reason, is identified as The Dual Economy.

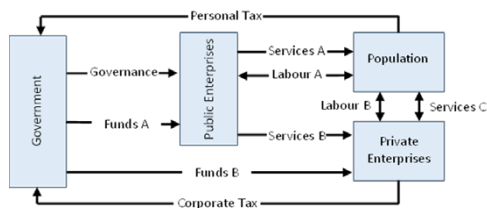


Figure 3: The Dual Economy. Here, Tax includes duties, levies, etc. on all levels (federal, state, local) as well as any payments for public services, as discussed in Section 2. Personal Tax includes income tax, death duties, inheritance tax, wealth tax, capital gains tax, etc. and Corporate Tax includes GST, duties, resource taxes, etc. As before, Services include products and commodities. The double-headed arrows on Labour A, Labour B, and Services C indicate that payments flow in return for labour and these services.

The Public Enterprises are normal corporations wholly owned by the State as the only shareholder and their employees are not public servants (they are located only in Government). For an assessment of Public Enterprises, see e.g., Hanna (2013) and Detter and Fölster (2015). Trade, as an activity of Private Enterprises, is not shown explicitly in Fig. 3. In this model, what in Australia are Government departments (such as the Department of Education) are contained within the respective Public Enterprises, providing a separation of politics and business. The political system, operated by the Government and including such functions as the Electoral Commission, is effectively a process with two interfaces. In the interface with the Population, it needs to negotiate a balance between the Population's desire for public services and its willingness to pay for them; in the interface with the Public Enterprises the process needs to find a balance between available funds and the abilities of the Public Enterprises as a function of funding. The Government process is a back-and-forth between these two interfaces: the art of the political compromise.

For Public Enterprises, the purpose is to provide public services defined by legislation at the lowest cost; for Private Enterprises the purpose is to maximise the return on equity by meeting real or induced market demands. Private Enterprises may compete under normal commercial contract conditions for Government funds for the provision of certain public services (outsourcing). These are provided to the public as part of Services C, and their economic value is simply the funds provided by the Government, indicated in Fig. 3 as Funds B. Moreover, in this simplified model, NGOs are included in Private Enterprises.

In an ideal Dual Economy the public services agreed by the people through the democratic process are delivered entirely by Public Enterprises, and Funds B = 0. Private Enterprises are not prevented from offering similar services, perhaps to differing standards or for the purpose of social differentiation, but they shall receive no public funds for such activities.

The cost of operating the Government process appears as an overhead on Public Enterprises, so that the value of the services produced by them is the sum of the two taxes minus Funds B. Society's GDP is the sum of Services A + Services B + Services C.

The model of the economy presented in Fig. 3 is a static model; it is a simplified picture of the state of the economy at one point in time. For a model that does identify factors influencing economic progress (e.g., the expectation of future reward) and the influence of political ideology on these, see (Bjørnskov, 2005).

The relationship

We are now in a position to relate our characterisation of the society's ideology in Fig. 1 to the model of the economy in Fig. 3 by assigning a quantitative scale to each of the axes in Fig. 1. Let the variable expressing a position on the horizontal axis be x , $0 \leq x \leq 1$, and the variable expressing a position on the vertical axis be y , $0 \leq y \leq 1$. If we then introduce the following two new variables:

Tax = Personal Tax + Corporate Tax; and
 β = Funds B/Tax;

then the two coordinate variables are given by

$x = 1 - \text{Tax}/\text{GDP}$; and

$y = 1 - \beta$.

This is shown in Figure 4, which now provides a high-level correlation between a

society's political ideology and the structure of its economy, and for a typical Western democracy a Government Expenditure (i.e., Tax) as a proportion of GDP in the range of 18–24 % is what is observed (Aslaksen, 2021). As a function of time the evolution of a society would be described by a trajectory in this plane, and at the very earliest formation of a society it would have to have been located in the lower right-hand corner, $x = 1$ and $y = 0$. As the society evolved and became increasingly structured it would move upward on the arc indicated in Fig. 4, but at a decreasing rate.

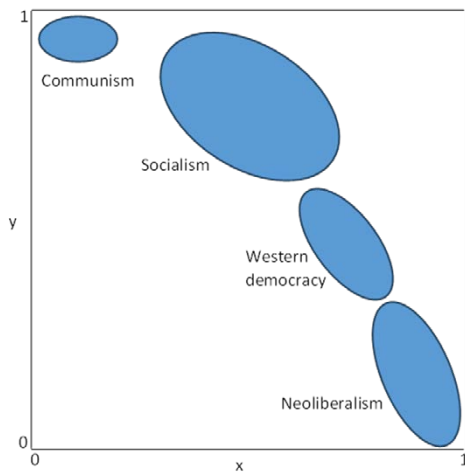


Figure 4: The relationship between political ideology and economics illustrated by assigning quantitative values determined by economics to the two axes defined in Fig. 1. Here x is the proportion of GDP delivered by Private Enterprises and y is the proportion of public services delivered by Public Enterprises.

The two economic variables used as coordinates in Fig. 4 are ratios of absolute variables, so that the relationship expressed is applicable to any size society and economy. And, furthermore, this relationship does not present any value judgement, such as

that stated by North: “even in the modern world successful economies, as measured by per capita income, are still in the minority” (North, 1988: 18). On that subject, it might be noted that we should be careful with such a measure, as the success of these Western societies is to a significant extent due to their initial brutal exploitation of the rest of the world. It is analogous to ignoring the role of the initial investment (venture capital) in a successful start-up.

In Fig. 4, both extreme neoliberalism and communism are utopian states of society. Neoliberalism a longing for the supremacy of the individual in an idealised past, communism a vision of a perfect future collective, both unobtainable when a realistic description of human nature is taken into account.

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Personal notes on Aslaksen’s paper¹

Christopher M. Adam

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Having spent my professional career learning and expositing techniques of considerable detail within the economics discipline, I have found much of that work has ill-prepared me in recent times for the (what seems to me) rising tide of “cross-discipline” analyses being quoted ostensibly to support economics research. For example, I observe applications of “complexity,” “network theory” and “quantum” being borrowed from mathematics and physics to explain how separate agents in markets may interact with each other (Der Derian and Wendt, 2022; Farmer, 2024; Khanna, 2016). As another example, I have noted the growth of linguistics research intended to answer economics questions such as “How many languages do we need?” (Ginsburgh and Weber, 2011) or to define a new cross-discipline of “Linguanomics” (Hogan-Brun, 2017).

In addition, running in the seemingly opposite direction to building on existing analytical structures, is research arguing that the foundations of our economic understanding are better based on a novel fundamental construct drawn from history. This is captured, under the title of “zone”

analysis, as the recent historical emergence of small non-democratic geographically focused “zones” of economic activity like Hong Kong or Singapore, rather than widespread national entities such as countries like the US or China, or collectives of nations such as the European Union (Slobodian, 2024). Zones are considered more robust as the key elements for human interaction than are global intercontinental entities. Pursuit of the zone approach supports the development of gated communities within existing nation states or the separation of industrial production sites from major residential cities. The novelty of the zone structure is that it does not, in the view of its supporters, require broad-range democratic institutions to control and manage a given zone: in fact, a zone would best operate under its own rules, which tend to create administrative regimes without democracy.

When confronted with this large range of suggested and potentially overlapping alternative methods of analysis, it is not clear what the direction is for the next step. A guide for next step(s) would seem beneficial.

What struck me about the paper submitted to the Royal Society was its useful clarity

¹ Chris Adam was one of the two referees for this paper. At the Editor’s request, this is a note on Aslaksen’s paper. [Ed.]

in identifying a particular set of linkages between economics and political ideology that could be adopted in short compass. The paper does not attempt to provide all possible connections between the two disciplines, nor does it offer to exposit a complete range of underlying analytical or historical techniques which may be adopted and adapted to exploring the linkages proposed.

The paper instead provides a valuable summary in two dimensions, both verbally and graphically, how we may trace useful connections between economics and political analysis. In reading the paper we are not overwhelmed by exposure to separate and independent advanced analytical tools, nor are we required to embrace an extended range of political philosophy in order to underpin the explanation of how political ideology can drive economic analysis in real countries. The paper explains some analytical tools, and some political ideology, helpfully brought together through a two-dimensional diagram.

Obviously, a short paper cannot encompass all possible analyses of the interactions

between the content of economics and that of political ideology. Indeed, it is doubtful that any finite publication might cover all aspects of the interactions. The true value of this paper is that it presents an original summary which provides a useful foundation for taking further steps of a more detailed discussion, both pro and con, on the topic.

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