Introducing a New Economics

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Pluralist, Sustainable and Progressive

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Introducing Economics with a Judicious Mix of Pluralism, Sustainability and Justice

Alfred Marshall wrote in his best-selling *Principles of Economics* (1890 [1946]: v) that 'economic conditions are constantly changing, and each generation looks at its own problems in its own way'. Our generation is confronted with many problems, including climate change, environmental damage, a global financial crisis, a palpable disparity in income and wealth, escalating debt and a healthcare crisis. These problems are mutually reinforcing and, unless we take radical action, will only worsen. Knowledge and education can help us understand them in order to devise effective solutions.

This chapter will discuss and define economics and its relationship to the other social sciences. We will also discuss how economics is interwoven with sustainability, pluralism and justice – our guiding principles.

1.1 WHAT IS ECONOMICS?

The word 'economics', like so many other English words, derives from the Greek language. It combines 'oikos' (house) and 'nomos' (manager), and literally means 'household management'. Given our text's central focus on sustainability, it is interesting that economics shares a linguistic origin with ecology, which studies the relations of organisms to one another and to their physical surroundings. We are happy to write a textbook that unites the two words by returning them to their common origin.

While managing households is a concern in all societies, the modern discipline of economics is relatively new, dating to Adam Smith and his *The Wealth of Nations* (1776). Originally called political economy, the discipline recognised the interconnection between economics and politics.

While the definition of **economics** has changed over time, we prefer (and will use) the modern definition: Economics is a social science concerned with how societies provision. Or alternatively, 'how societies organise themselves to sustain life and enhance its quality.' (Nelson, 2009: 61)

Three points are obvious from this definition:

(1) Economics is a social science, meaning that it studies human society and its social relationships, as opposed to physics or chemistry, for example, which study the physical world. Nevertheless, the dividing line between human society and the physical sciences (and thus between the social sciences and the natural sciences) is not as clear-cut as first appears. The physical world is changing, affecting human society; conversely, how we act socially and economically changes the physical world. Indeed, this interconnection was noted by The Intergovernmental Panel on Climate Change (IPCC) in their *Fifth Assessment Report* (2014):

> Human influence has been detected in warming of the atmosphere and the ocean, in changes in the global water cycle, in reductions in snow and ice, in global mean sea level rise, and in changes in some climate extremes. This evidence for human influence has grown since 2007. It is *extremely likely* that human influence has been the dominant cause of the observed warming since the mid-20th century.

(2) Economics is concerned with how we provision (from the Latin word *providere*, 'to provide') so that individuals can lead quality lives and reach their full potential.
(3) Economics is also concerned with how *we* organise our societies. Knowledge empowers, enabling us to best construct our societies so that *all* can successfully provision.

So to redress and (perhaps) attenuate climate change, for example, we humans must change our values and behaviour and even our institutions. We believe that economics must and will play a crucial role.

1.2 HOW ECONOMICS RELATES TO THE OTHER SOCIAL SCIENCES

While many of you might have taken, or will be taking, other courses in the social sciences such as sociology, anthropology or psychology, you might wonder how economics fits within the social sciences. Table 1.1 presents a definition of other social science subjects. While each is taught as a separate discipline and is offered as a main degree at most universities, the commonality is striking – every discipline involves the study of human beings. So why do we compartmentalise each discipline? Does that help or hinder understanding the problems of our generation?

One reason for such compartmentalisation within the social sciences is the attempt by economists during the late nineteenth century to emulate contemporary physics by becoming 'scientific'. To do so, 'political' was dropped from 'political

Table 1.1 Definitions of Specific Disciplines Within the Social Sciences

Discipline	*Definition*
Anthropology	The study of peoples and their cultures.
Communications	The study of how individuals and communities devise symbols and languages to communicate with each other.
Economics	The study of how societies provision.
Geography	The study of how human action both affects and is affected by the physical features of the Earth.
Law	The study of custom and rules.
Politics	The study of activities and policies of the government.
Psychology	The study of how the human mind works.
Sociology	The systematic study of society and human action, with a specific focus on groups.

Source: Authors.

economy', to focus almost exclusively on how rational individuals maximise their happiness by allocating scarce resources amongst unlimited wants. Thus, this 'new' economics, or 'neoclassical economics', limited its approach to one narrowly defined as 'scientific', and mostly focused on the question of rational choice rather than the investigation of the economy's ability to provision. Needless to say, not all economists accepted this constricted scope and method, giving rise to the proliferation of many schools of thought within economics, which we will discuss in this chapter.

Other disciplines, particularly sociology and anthropology, formed and developed in order to investigate areas and issues jettisoned by neoclassical economics, such as group behaviour, institutions, property rights, power, culture and the historical evolution of capitalism.

Does such compartmentalisation (within the social sciences) help or hinder? Although we believe in the benefits of specialisation, we also feel that specialisation without cooperation is limiting and self-defeating. Each discipline can and should learn from others. One of the goals of education should be to recognise that in the real world our problems are not demarcated by discrete disciplines. For example, climate change is neither a sociological, environmental nor economic phenomenon. We need the insights of all disciplines to solve our problems, and yet each of the social sciences is a work in progress, since there is a lot we do not yet know. Perhaps one of our goals as social scientists should be to reduce the barriers, blend the disciplines, and/or work across disciplines: that is, to be **interdisciplinary**.

Exclusive reliance on only one discipline gives a misleading and myopic understanding. For example, if we want to study financial bubbles, how can we claim understanding without knowledge of psychology? Or if we want to establish a government that benefits all, how can we do so without knowledge of history, which teaches us what works and what does not, along with sociology, economics, politics and psychology? If we want to effectively address global warming, how can we do so without knowledge of how and why people form and behave in institutions and groups?

To use an analogy of a homeowner, while we respect the property rights of our neighbours, rather than wall off our gardens from each other we prefer an open space to mingle and talk – a commons, if you will – which, among other things, fulfils a basic human need for social contact and interaction. Thus, given a common problem we can come together to develop a solution. It is hard to do so when each garden is walled off, so we don't know our neighbours or any aspect of their lives.

In the social sciences, not only are the 'neighbours' different, they frequently don't speak to each other:

> disciplines and sub-disciplines largely form their own small worlds of methodology, assumptions, language, meaning and identity . . . Disciplines are like tribes, they have a specific culture and specific habits, norms and rules, and they do not easily accept outsiders.
>
> Weehuizen, 2007: 165

1.3 DIFFERENT IDEOLOGIES (OR SCHOOLS OF THOUGHT) WITHIN ECONOMICS

For us, a very emotional and evocative photograph is that of the Earth taken by the Apollo 8 astronauts (titled *Earthrise)* in December 1968. It looks peaceful and somewhat idyllic, and it is hard to imagine that people living so close together against the infinite background of space can be so truculent. To a lesser extent, the same truculence exists within economics. It is a discipline rife with *ideological* disagreement, based on different ideas and visions of how the world works and how it should work. When neoclassical economics was founded, it became **monist** (the opposite of pluralist), espousing only one privileged viewpoint. But, as we explain in the next section, not only is monism inconsistent with democracy but, as we devise effective solutions for our generation's many problems, why constrict our thinking to only one way of seeing the world? Wouldn't we benefit from a healthy discussion involving all viewpoints?

For better or for worse, there are a number of competing ideological positions within the discipline of economics. We believe, however, that disagreement livens economics and enlarges its scope and applicability. Consequently, our approach (consistent with our theme of pluralism) is to make you aware of the existence of the different ideologies and, where appropriate, mention the origin of certain principles and concepts and how they fit in with the overall discipline of economics.

Thus, our goal is to search for commonalities between the different ideologies and across the social sciences. We ask you to be cognisant of the differences and to realise that it is difficult to prove one view superior to others. We offer you a new framework to learn the principles of economics within a pluralist and sustainable context, to help you conceptualise and solve the problems of our generation. It is not expected at this point that you fully understand the major tenets of each view, since most of the concepts will be discussed in later chapters. The major ideologies (or schools of thought) within economics include:[1]

Classical economics: Begins with Adam Smith (1723–90) and includes Jean-Baptiste Say (1767–1832), Thomas Malthus (1766–1834), David Ricardo (1772–1823) and John Stuart Mill (1806–73). The classical economists wrestled with the big-picture questions of their time, especially the advent and development of **capitalism** – a new dynamic system defined as the private (i.e. firms and individuals) ownership of the means of production (i.e. resources used to produce the goods and services that people need) (see Box 1.1). With ownership comes the obligation to decide what to do with the resources and how to use them to produce society's needs. Since it was not immediately obvious how private ownership could ensure that the necessary goods and services would be produced, Classical economists searched for underlying laws of the economy. They also investigated how wealth was produced and distributed between workers, landowners and capitalists. Conflict between different groups and the existence of power was recognised as central and as a legitimate area of study for economics. Classical economists also investigated the source of an item's value, concluding it was labour: the more labour to produce an item, the greater its value. This is known as the **labour theory of value**. According to Adam Smith (1776 [1976], Vol. I, Ch. 5, p.37) and accepted by all classical economists, 'Labour alone . . . never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price; money is their nominal price only.'

Neoclassical economics: Traces its origins to the late nineteenth century. Its principal founders include William Stanley Jevons (1835–82), Leon Walras (1834–1910) and Alfred Marshall (1842–1924). Heavily influenced by eighteenth-century physics, it adopted an ostensibly scientific veneer by divorcing itself from politics and the other social sciences, while limiting its scope to how rational individuals allocate scarce resources amongst unlimited wants. Its three major elements include: (1) individualism – focusing on the behaviour of individual agents (consumers, workers, firms) while trying to understand the economy based on individual behaviour; (2) optimisation – assuming that individual

1. It is impossible here to offer more than a cursory description of each school of thought. For more involved discussion, see Stilwell (2012); Harvey (2015).

Box 1.1 Definitions: Capitalism, Socialism, and Communism

Every nation must ask and answer what type of political and economic system it wants. Pertaining to the later, capitalism is one choice, but not the only choice. **Capitalism**, defined as the private ownership of the means of production (see text above), does not imply that all means of production must be privately owned, only 'most' – although economists disagree what is meant by 'most'. Other central features of capitalism include reliance on the profit motive, competition, and reliance on labour power as a commodity (i.e. labour is bought and sold in the market). With ownership also comes the responsibility of how to use the means of production, unless circumscribed by law. The Netherlands (seventeenth century), England, and the USA (beginning in the nineteenth century) were early examples of capitalist nations.

Socialism is an economic system whereby the means of production are owned by the state. **Communism** is an economic system whereby the means of production are owned by everyone. The former Union of Soviet Socialist Republics (USSR) was the first nation state to adopt socialism; but, based on our definition, a communist system has never existed.

Capitalism usually relies on organised markets to allocate goods and services. A single market is defined, as many dictionaries do, as 'a regular gathering of people for the purchase and sale of provisions, livestock and other commodities'. Whereas single markets bringing together buyer and seller have existed since antiquity, an economic system organised around markets is relatively recent and by no means natural.

History, according to Karl Polanyi (1944) teaches us three important lessons: (1) no economic system is natural; (2) every economic system is constructed by human beings and supported by underlying institutions; and (3) if a system is not just and is not able to adequately provision for all, we can change/modify it.

agents optimise explicit goals such as happiness, income or profits; and that (3) the optimisation of individual agents results in stable equilibrium, in which there is no reason to alter behaviour (Earle et al., 2017: 38).

Neoclassical economics is the only ideology within economics to ignore power, assuming instead that market forces of supply and demand will transform inherent conflict between producers and buyers into a beneficent equilibrium. And it is the only school of thought within economics claiming to be value-free, or non-ideological.[2]

Marxism: Founded by Karl Marx (1818–83) and Friedrich Engels (1820–91). Key publications include the *Communist Manifesto* (1848) and *Capital* (1867).

2. As you will notice throughout this text, ideology has played and continues to play a central role in economics. From the Greek words *idea* (form; pattern) and *logos* (study of), **ideology** is commonly defined as 'the body of ideas reflecting the social needs and aspirations of an individual, group, class or culture. A systematic set of doctrines or beliefs.' Ideology is part and parcel of what makes us human; rather than something odious that must be expunged, it should be welcomed, and understood.

Heavily influenced by classical economics, Marxism utilises the labour theory of value and expands on the inherent class conflict of capitalism to argue that its central conflict is between workers and capitalists. Given that capitalism is defined as private ownership (and hence private decision-making) of the means of production, only a minority of individuals can own these resources, so that those owning nothing but their own ability to labour (the workers) must work for the minority who own resources (the capitalists). The workers are hence dependent on the capitalists, who take advantage of this dependency to exploit workers by extracting **surplus value**, understood as the difference between profits and the wages paid to the workers.

It does not matter if individually such capitalists are benevolent because, as part of the capitalist system, they are driven by its fundamental goal to maximise profit. This profit motive in turn renders capitalism cyclical and unstable. As capitalism expands, labour is replaced by machinery, but since labour is the source of value, the overall profit rate falls, increasing unemployment and decreasing investment. Eventually such conditions will be reversed and temporarily improve (due to falling wages, technical innovations or increased trade), but this will only increase unemployment and eventually lead to a massive crisis in capitalism.

It should be noted that the key concept of 'surplus', significant in understanding how all economic systems function, is central to Marxist economics. The surplus is:

> that part of the total output of an economy that is in excess of what is needed for reproducing and replenishing the [means] of production. There is no reason why a surplus must exist, but it does exist and has existed in all but a few human societies. The surplus product may be used in a variety of ways. It can take the form of cathedrals, palaces, luxury goods, military spending, more or better equipment, higher levels of education, improved health, and many other things.
>
> Bowles et al., 2005: 93, original emphasis deleted

How to use society's surplus to help all provision is a central concern of economics. The recent financial crisis[3] has sparked a renewed interest in Marxist economics.

Institutionalism: Originating in the late nineteenth century in the USA, its principal founders were John Commons (1862–1945) and Thorstein Veblen (1857–1929). It emphasises the important role of **institutions** in any economic system, defined as a rule, custom or pattern of behaviour that simplifies and

3. We are referring here (and henceforth in this textbook) to the global financial crisis which began in 2007, with its worst effects in 2008. For many people, however, the effects of the crisis are ongoing, so we would not define it as an event spanning only that time period.

regularises human conduct. Institutions are paramount and should be the focal point of any systematic study of the economy, since 'humans both influence and are influenced by the institutions' (Vatn, 2005: 25). If we want to be able to provision for all, *step one* is to understand and recognise our institutions – institutions that we built and, if necessary, we can change.

The possession of power and its use are central to institutionalists. How power is exercised will influence and determine the evolution of institutions and hence the ability of economic systems to provision. Acemoglu and Robinson (2012), along with many others, argue that institutional factors are critical to sustainable long-term growth. When only a small elite can become rich, countries are unlikely to achieve sustainable growth unless they reform their political, social and economic institutions to make them more inclusive.

Unlike neoclassical economics, which unabashedly trumpets capitalism, and Marxism, which excoriates it, institutionalism expresses no favourite economic system. However, more recently, '**new institutionalism**' has developed, which is, in effect, an extension of neoclassical economics: recognising institutions as being important not in their own right, but rather in terms of influencing and constricting human behaviour.

Feminist economics: Includes studies of gender roles in the economy from a liberatory perspective, and also develops innovative research to address topics such as the economics of households, labour markets, macroeconomics, development, unpaid production in the measurement of gross domestic product (GDP),[4] and the effects of government budgets on gender equity (Nelson, 2008). Tracing its roots to the 1960s, it investigates how unequal distribution and use of power adversely affects women, along with the patriarchal nature of economic relations in capitalism – each ignored by the other ideologies. Thus, feminist economists recognise that subjective biases, social beliefs and structures of power reinforce situations oppressive to women. The International Association for Feminist Economics was formed in 1992 and its journal, *Feminist Economics*, commenced publication a few years later. Considering the dissatisfaction with neoclassical economics, feminist economists propose a re-evaluation of theories and methods in economic courses in order to better reach students with diverse backgrounds and learning styles.

Green economics: Also developed during the 1960s. A holistic vision which advocates careful consideration of the relationship between the economy and the environment. The need to have a stable economic system without constant growth is central, along with sharing resources equitably. Green economists see the economy as essentially enclosed within the environment, which in turn is the source of all wealth, rather than as a source of exploitable resources. The

4. As will be explained in Chapter 12, GDP is defined as the market value of all final goods and services produced within a nation's geographical borders in one year.

recognition of planetary limits challenges the emphasis of economic growth within a conventional conception of economics. This in turn immediately implies the need for greater equality, since if the pie cannot grow overall then the size of each slice becomes much more important. A sustainable approach to economics also requires a more careful stewardship of natural resources and the need to shift from a linear to a circular model of production, so that instead of using energy to extract and transform resources into products that are sold, used and turned into waste, we create a circular model where each product or its components can be reused or recycled (Braungart and McDonough, 2009). Green economists such as Molly Scott Cato (2012a) have written extensively on bioregionalism and economics, exploring elements of current local practices that can prefigure more extensive developments and innovations. Green economics also favours a reflection on the changing nature and rhythm of the transformations of society, knowledge and values (Kennet, 2007). The speed of these changes hastens the search for new connections to offer alternatives based on a more satisfactory understanding of our reality.

The Austrian School: This group is highly critical of the ignorance and omission by neoclassical economics of the role of uncertainty and of the individual entrepreneur. How the individual behaves, particularly in light of uncertainty, determines how an economic system evolves. Austrians stress the highly subjective marginal valuation of assets (i.e. we each value things differently) and, in addition, criticise the overly formal mathematisation of neoclassical economics. Principal founders include Eugen von Böhm-Bawerk (1851–1914), Carl Menger (1840–1921) and Friedrich von Wieser (1851–1926).

Post-Keynesianism: This school of thought developed the ideas of John Maynard Keynes (1883–1946), whose 1936 book *The General Theory of Employment, Interest and Money* revolutionised economics and thinking about the 'proper' role of government. Highly critical of neoclassical economics' belief in the economy's ability to achieve equilibrium at full employment, Keynes argued that the economy was more likely to achieve equilibrium at less than full employment. The Great Depression during the 1930s lent credence to his argument. Keynes also underscored the financial instability of capitalism, particularly the role of credit and the financial sector. Keynes called for government help in stabilising the economy, reducing uncertainty and increasing aggregate demand. Principal Post-Keynesianists include Sidney Weintraub (1914–81), Hyman Minsky (1919–96), Paul Davidson (1930–) and Joan Robinson (1903–83).

As can be seen, the different schools of economic thought tend to emphasise or deny the significance of some concepts and not others, e.g. the entrepreneur, uncertainty, power, patriarchal relations, the environment and the evolution of capitalism itself. It can also be argued that the splintering of economics into different schools was due to neoclassical economics ignoring these concepts. Perhaps the time has come to see if these different ideologies can in some sense