

# An Economics for Humanity

## PART 1 - THE MAIN ISSUES

### 1. THE SOCIAL NATURE OF ECONOMIC THEORY

Economics is the systematic study of production, exchange, and consumption. Unlike physics or chemistry, its subject matter only rarely permits the formation of hypotheses that can be tested by experiment. Economics is best categorized as a social discipline, in a separate category from the physical sciences.

Economics differs from the physical sciences in another fundamental way. Although economic activities are objectively real, the interpretation of this reality is subject to various viewpoints, or social perspectives.

Whether you are male or female, black or white, the physical world is interpreted in much the same way. That is, for most of humankind there is only one physics, one chemistry, and one biology. When we address economic issues, however, social perspective is critical.

Production looks vastly different through the eyes of a capitalist and a worker. Consumption is perceived in completely distinct ways if you are rich or poor. All social issues, especially those in the economic realm, are open to interpretations based on the social status and economic role of the analyst.

This implies that each well-defined social perspective, if it serves as the basis of a rigorously developed theory, will result in a valid method of economic analysis. The fact that standard economics is currently the only fully developed method is not inherent in economic thought, but instead reflects the immaturity of competing viewpoints.

Economics is therefore the systematic study of production, exchange, and consumption - from a specific social perspective.

Some Feasta members may want to see economics defined in terms of scarcity. This accords with environmental concerns and is consistent with the classical definition by Lionel Robbins: "Economics is a science that studies human behaviour as a relationship between ends and scarce means which have alternative uses."

The problem with scarcity-based definitions is that they incorrectly identify the scope of economic concern. If a resource only enters the economic sphere when it becomes scarce, then economic analysis will ignore it while it is non-scarce. As Herman Daly asked, "How do we know that we were not better off at the smaller scale, before the free good became an economic good?" Economics is broader than scarcity, and its definition must reflect this.

## 2. STANDARD ECONOMICS

The social perspective of standard economics is clear from its history. The discipline was founded with the publication of Adam Smith's *Wealth of Nations* in 1776. Smith was one of the classical economists, a group of thinkers who analyzed the early stages of capitalism with relative honesty and objectivity. As the class struggle heated up in the 19th century, this honesty was lost and economics became an ideological weapon. The potentially revolutionary ideas of the classical economists were tamed, then slowly transformed to meet the specific needs of manufacturers.

Around 1870 the new business-friendly concepts were decisively strengthened and consolidated, and the discipline became known as neoclassical economics. With only minor modifications, this is the standard economics that monopolizes the field today.

Standard economics represents the capitalists' social perspective in two distinct ways. First, it provides them with a sophisticated method of analysis. Given that capitalists are key players in complex economic systems, this is a necessary and legitimate role. Second, it supports their class interests. It achieves this largely by restricting the scope of economic thought to their narrow requirements and then defending this narrowness with religious fervour.

The dual nature of standard economics – the fact that it is both a method of analysis and a tool to support class interests - means we have to maintain a dual attitude towards it. On the one hand it is a constricted theory that ignores or distorts much of economic reality. On the other hand it has done extensive empirical research, and it includes excellent tools which can be fruitfully appropriated by an alternative method. A human-oriented economics should build its concepts on a new foundation and fiercely maintain its conceptual independence, but it should borrow from the standard discipline as required to avoid re-inventing the wheel.

I should note that my approach differs markedly from two thinkers I greatly admire - Herman Daly and Amartya Sen. Daly is an important ecological economist, while Sen is a development economist who won the 1998 Nobel Prize for economics.

Both Daly and Sen admit that standard economics has grave shortcomings, but they accept its fundamental tenets and want to remain within the standard tradition. Daly states explicitly that, "[Standard economics] need not 'junk' its axioms. Many of them can continue to function, only with more recognition of their limits." (*For the Common Good*, p. 8)

My view is that Daly and Sen understate the ideological aspect of standard economics and fail to acknowledge the depth of its adherence to capital's viewpoint. I find the axioms of standard economics to be inappropriate for analysis which puts humanity rather than the return to capital first, while they do not. Daly, Sen and other progressive economists have done valuable work, but I believe they have done so in spite of standard economics, not because of it.

### 3. ORGANIZATION OF HUMAN ECONOMICS

The objective reality of economic activities refers to the physical aspects of the economic process. At a high level of abstraction this process can be depicted as in Fig. 1 below:

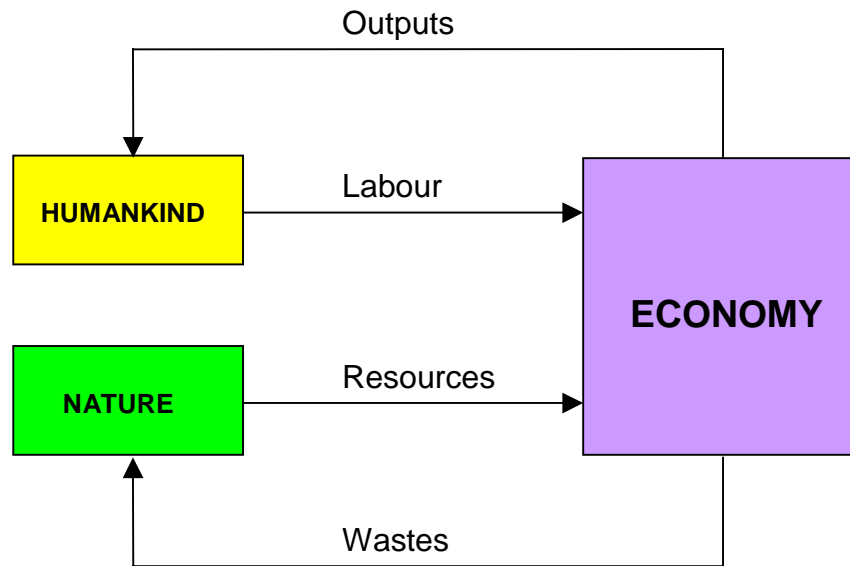


Figure 1: The economic process

With the help of machines and other technologies, human beings labour cooperatively to extract resources from nature and to produce outputs, which they then exchange and consume. These activities create wastes which are returned to nature.

This description is socially neutral - it is unconnected to status, role, or power. Social perspectives come into play when we delve beneath this physical depiction and confront the social nature of economic activities.

As indicated, standard economics interprets the social sphere from the capitalist perspective. According to this viewpoint, the economic objective is the accumulation of capital by maximising the profit on the capital one already has. Labour and natural resources are input costs, and outputs are commodities to be sold in the market for profit. The human impact of resource depletion and wastes is minimized or ignored.

Obviously, a human-oriented economics cannot share this view. It could instead adopt the viewpoint of another specific class, group, or gender, but I suggest the broadest possible perspective: the common interests of humankind.

Stripped of their cultural differences, human beings have shared economic objectives relating to their physical well-being; living on the same planet, they face similar natural conditions. These common features constitute the social perspective of humankind.

From this perspective, an economy is perceived in terms of its capacity to serve human needs, while nature is seen as a limited source of raw materials and a limited sink for wastes.

Thus: humankind seeks to achieve its economic ENDS, using an economic system as its MEANS, while recognizing ecological limits as CONSTRAINTS.

If this statement accurately reflects humankind's economic situation, it establishes the shape of a human economic theory: we need an analytical method that allows us to rigorously address our ends, means, and constraints.

It is important to note that these three elements are in discrete conceptual realms. Analyzing our economic needs is distinct from dissecting an economy's operational details. The first deals with human benefits and costs, while the second deals - for much of humankind - with the workings of capitalism. The analysis of ecological constraints deals with the material flow of resources and wastes, which is again a different topic from the first two.

This implies that each sphere requires its own set of terms, concepts, and tools - that is, its own conceptual framework. My suggested names for these are as follows:

- The HUMAN framework - to address ENDS
- The FUNCTIONAL framework - to address MEANS
- The ECOLOGICAL framework - to address CONSTRAINTS

Applied to the previous diagram, we have Figure 2 below:

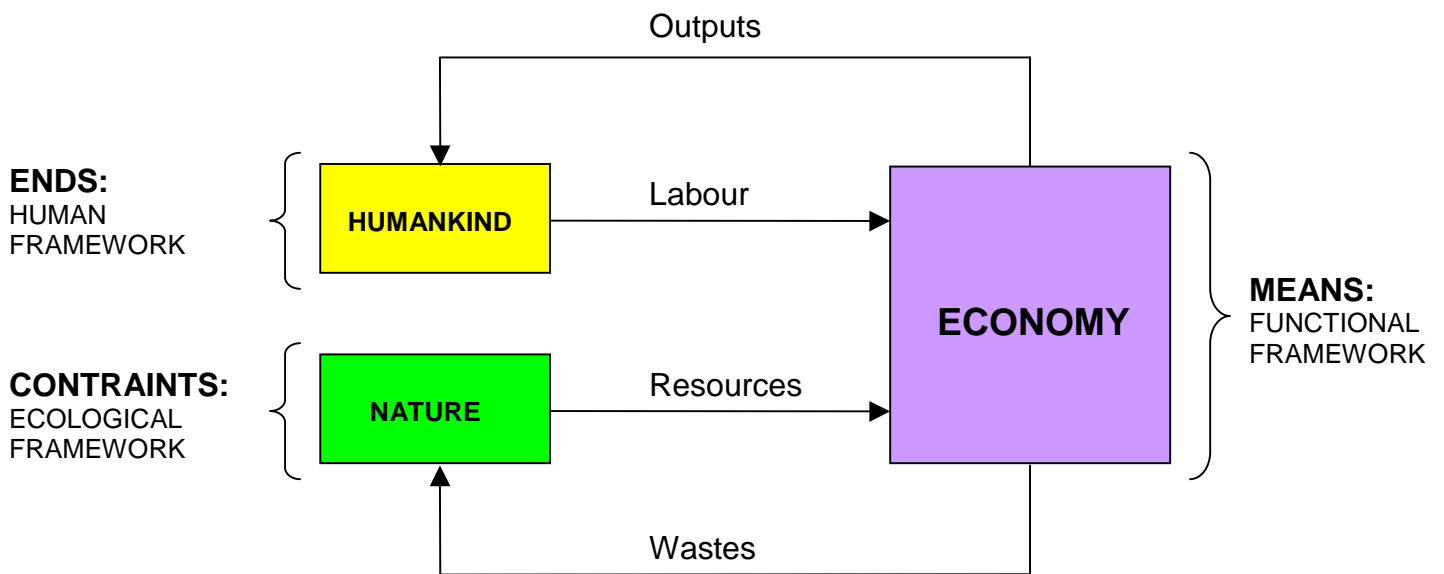


Figure 2: The three frameworks

I refer to the entire theory, consisting of the three frameworks, as human economics.

Let me make several points about this conceptual organization:

- It accords with the logic of everyday thought. People have goals, search for ways to achieve those goals, and struggle against obstacles and limitations in doing so. The logic of human economics should be no different.
- It accurately reflects the critical notion that the economy is an instrument that serves humankind's purposes, not the reverse - a process to be served by humankind.
- As already stated, it enforces discrete conceptual realms, which is of the utmost importance for theoretical progress. Issues that are logically distinct must be kept separate if we are to avoid blurring our terms and merging our concepts.

The human framework is the most critical because it both permits and requires us to rigorously formulate our overall economic goals. Remarkable clarity can be achieved when we abstract away from the details of a real economy and pose the seemingly simple question: what does humankind want from an economy? Until we can answer this clearly, we cannot know if our concrete efforts at economic reform are effectively directed.

I expect that many will object to the ecological framework because it reduces the role of the environment to constraints on economic activities. There is a good reason for this role: the environment cannot be addressed using the economic concepts of value and cost. Attempts have been made in this direction, but I believe none has been successful. This means that, for an economics to be internally consistent, the environment must either be excluded, or it must be seen as a physical domain which impinges on the economic domain. I have chosen the latter, and the treatment of the environment as a set of economic constraints follows.

The human and ecological frameworks are similar in that each addresses a single analytical issue. The same is not true for the functional framework, which can address a variety of economic systems. In my version of the functional framework I confine myself to capitalism, simply because this is the dominant economic system in the world today. However, there is nothing to prevent others from developing alternative functional frameworks to address primitive, self-sufficient, or even socialist economies.

#### 4. INTELLECTUAL TRAPS

When one tries to rethink anything from first principles, one is prey to numerous logical errors - some obvious and others quite subtle. To see why I have developed human economics as I have, it is essential to understand the intellectual traps I have encountered and have hopefully learned to avoid.

##### a. Clinging to old ideas

Thinking new thoughts is difficult, but thinking consistently in terms of these thoughts is more difficult still. The settled ideas are always there, ready to supplant the new, sometimes in the middle of single thought process.

As usual, Keynes said it wonderfully. In his preface to *The General Theory* he described the book's creation as "a long struggle of escape from habitual modes of thought and expression." He added: "The difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify ... into every corner of our minds."

#### b. Building solutions into the theory

In a recent issue of *Scientific American*, Michael Shermer, who publishes *Skeptic* magazine, stated that, "Smart people believe weird things because they are skilled at defending beliefs they arrived at for nonsmart reasons." This is true - many intelligent people use their brain power not to objectively analyze reality and arrive at rational views, but to cleverly defend their biases.

This tendency appears in economics when we take our preferred economic solutions - income equality, reduced consumption, etc. - and subtly incorporate these into the concepts and tools we're developing. We then use these same concepts and tools to arrive at our built-in conclusions and use our intelligence to justify the circular game we've just played.

Our biases obviously have an important role - they incorporate our personal values and are the source of our initial viewpoint and axioms. But once the viewpoint and axioms have been laid down, our biases should have no further role. Theory must be developed from its chosen foundation in a rigorous and objective fashion, letting the solutions arise as they may. If the solutions contradict our pet ideas, our pet ideas should be re-examined.

#### c. Overextending the discipline

Most of the people who will read this are deeply concerned about humanity and the environment, and would prefer one-stop theoretical shopping to address human and environmental issues. Over-extension, however, is death to good theory. Many issues are not primarily economic, but political, ethical, sociological, or biological. Economics is the study of production, exchange, and consumption. It should fully address these, but it should not attempt to do more.

#### d. Personal attachment to ideas

"An old tutor of a college said to one of his pupils: Read over your compositions, and wherever you meet with a passage which you think is particularly fine, strike it out." (Samuel Johnson)  
As in writing, so in theory. Over the years I have frequently conceived an idea which I thought was "particularly fine," and have adhered to it with unacknowledged passion because it was mine. Only later did it become clear that the idea was bunk, and had led me up numerous blind alleys.

#### e. Unnecessary complexity

Chess has a useful aphorism: long variation, wrong variation. That is, a move resulting from a convoluted calculation is probably incorrect - the strongest moves are often the simplest and most direct. Standard economics is guilty of horrific over-complexity, including the excessive

use of mathematics. While we should not avoid complexity or mathematics on principle, we should prefer simple, clear statements that most people can readily comprehend.

f. Fear

Although this doesn't sound like an intellectual trap, it is. For personal or professional reasons, most of us fear to tread beyond the bounds of conventional thought. Good ideas, however, must be embraced wherever they are found. As stated, I make heavy use of Karl Marx's economic concepts in the functional framework, despite the current political climate. I am concerned about this, but I believe the concepts are correct and irreplaceable.

## 5. FEEDBACK

If you decide to comment on this first part, I ask you to answer the following questions:

- a. Do you agree with the central point that economics is dependent on social perspective?
- b. Do you agree that the axioms of standard economics should be rejected and a new economics constructed a different axiomatic basis?
- c. Is the organization of human economics into three distinct conceptual frameworks the correct approach?
- d. Do you agree with the treatment of the environment as a set of constraints?

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