Can economics explain everything and solve all our problems?

Book Section

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Chapter 16 - Can economics explain everything and solve all our problems?

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Introduction

Economics, in its mainstream guise, has begun to permeate popular culture in the form of an expanding range of books that seek to provide explanations of human behaviour and society through the application of standard neoclassical economic tools and principles. Current well-known books, generally targeted at the general public and positioned as an attempt to demystify and promote economics, are titles such as Freakonomics (Dubner and Levitt 2006), The Undercover Economist (Harford 2007), and The Economic Naturalist (Frank 2008). The topics of these books are not necessarily the economy, but rather take an economic approach to a wide range of issues such as whether sumo wrestlers cheat (Dubner and Levitt 2006), why American teenagers are having more oral sex (Harford 2007) and why your fridge has a light but your freezer does not (Frank 2008). Whilst the need for these issues to be explained or not can be debated, the manner in which they are approached is illustrative of the way that economic tools are applied to topics that are not traditionally considered to be within the scope of the field of economics. These books are very clear about the sort of economic principles that are being applied. For example, Frank (2008) discusses the opportunity cost and the cost-benefit principle (essentially the marginal principle) in which the additional benefits are weighed against the additional costs (of a given action), and Harford (2007) places central importance on the rational behaviour of individuals (see Chapter 2) as a vital tool in helping us peel back the layers and understand the complexity of the world around us (Harford 2007). These principles have been discussed at length in this book, and should be recognisable as central to the standard textbook economics that most students are exposed to. The importance of this application of the core neoclassical concepts also rests on the degree
of explanatory power ascribed to this framework, with Harford noting that ‘if you do not understand the rational choices that underlie much of our behaviour, you cannot understand the world in which we live’ (Harford 2007), and Frank (2008) claiming that ‘economics explains almost everything’ (Frank 2008).

The final chapter of this book discusses the question of whether economics can explain everything and solve all our problems. As previous chapters have shown, economics as a discipline addresses many important issues that are related to our daily lives and the society that we live in, from shedding light on questions concerning why and how we consume products (Chapter 5), how we produce these goods in the first place (Chapter 6), to broader issues concerning global economic crises (Chapter 10), the environment (Chapter 14), and gender relations (Chapter 13). This has hopefully convinced the reader that economics, in its many and varied guises, has something important and unique to say about the real world.

Further, the motivation for this question arises not just from the books discussed above that lay claims to the explanatory power of the mainstream Neoclassical framework, but a general recognition that economists working from different perspectives throughout the recent history of economic thought have exerted great influence. As Heilbroner (2000) notes:

[The great economists] commanded no armies, sent no men to their deaths, ruled no empires, took little part in history-making decisions. A few of them achieved renown, but none was ever a national hero; a few were roundly abused, but none was ever quite a national villain. Yet what they did was more decisive for history than many acts of statesmen who basked in brighter glory, often more profoundly disturbing than the shuttling of armies back and forth across frontiers, more powerful for good and bad than the edicts of kings and legislatures. It was this: they shaped and swayed men’s minds.
This chapter will compare and contrast a range of approaches that put forward claims of the overarching explanatory power of economics and the ability of economics to solve all our problems. The chapter commences with a comparison of the Neoclassical and Marxist frameworks, which both lay claims to an expanded explanatory power, though in very different ways. This is followed by a discussion of Keynes’ views on the power of economics to solve the central human problem, and his speculation that this could lead to a downgrading of the importance of economics. However, alternative approaches view economics as the problem, including calls for a new direction that focuses on human well-being and sustainability above economic growth.

**Economics Imperialism**

The extension of the standard Neoclassical economic tools and concepts discussed above are examples of a broader phenomenon that has been coined ‘Economic Imperialism’ (Lazear 2000):

Economics is not only a social science, it is a genuine science. Like the physical sciences, economics uses a methodology that produces refutable implications and tests these implications using solid statistical techniques. In particular, economics stresses three factors that distinguish it from other social sciences. Economists use the construct of rational individuals who engage in maximizing behaviour. Economic models adhere strictly to the importance of equilibrium as part of any theory. Finally, a focus on efficiency leads economists to ask questions that other social sciences ignore. These ingredients have allowed economics to invade intellectual territory that was previously deemed to be outside the discipline’s realm.”(Lazear 2000)

This succinct passage contains a number of the themes and issues that have been touched upon and discussed in previous chapters (Chapter 2, Chapter 3, Chapter 5 and Chapter 6). For the purposes of this chapter, it illustrates the application of core economic concepts, such as
the notion that individuals behave in a rational and optimising way, the centrality of equilibrium, and the concerns around efficiency and problems of allocation to issues that usually would be associated with other disciplines, such as Sociology, Politics, and the Social Sciences more generally. Whether this is a new invasion of intellectual territory previously considered outside of economics, or whether this is an application of the now dominant Neoclassical framework to subject matter that had been explicitly purged from economics following the Marginalist revolution and the turn to a more mathematical economics approach (Fine 2002) is an ongoing debate. However, what is clear is that in Lazear’s view, the economic approach has something unique to offer in terms not only of method, but the additional insights that follow. Whilst this is not a new phenomenon, the timing of Lazear’s statement is reflective of the dominance that Neoclassical economics had gained within the economics discipline by the end of the 1990’s. Further, the language used (imperialism) is also indicative of a political project, a discipline that is actively seeking to invade and colonise other disciplines, and to remake them in its own image. This project reflects the view that (Neoclassical) economics has a greater degree of superiority in comparison to other social sciences, in part due to the seemingly rigorous and relatively unified technical framework in which these core principles are, broadly speaking, agreed upon by most economists (Fourcade et al. 2015).

An early, and perhaps one of the most well known, proponents of this approach was Gary Becker, an economist associated with the Chicago School, who investigated a range of issues through the prism of Neoclassical economic tools including (but not limited to) crime and punishment, marriage instability, discrimination, and the inner workings of the household (Becker 1968; Becker 1971; Becker et al. 1977; Becker 1981). Whilst Becker himself had not coined the term economic imperialism, it is clear that Becker (1973) viewed his engagement
with these issues on a similar basis, emphasising the application of the economic framework, and the potential for almost universal explanatory power:

In recent years, economists have used economic theory more boldly to explain behaviour outside the monetary market sector, and increasing numbers of noneconomists have been following their examples... Indeed, economic theory may well be on its way to providing a unified framework for all behaviour involving scarce resources, nonmarket as well as market, nonmonetary as well as monetary, small group as well as competitive. (Becker 1973)

Becker’s work on the division of labour within the household is a good example of the application of economic principles to a topic that is not necessarily associated with economics, and is useful to explore to illustrate how and in what form the Neoclassical economic framework is applied. In his Treatise on the Family, Becker seeks to investigate the reasons behind the division of labour within the household, and specifically differences between what men and women do. The starting point for this analysis is the case of a single person household, in which the individual chooses to allocate their time between ‘domestic’ and ‘market’ activities to maximise household consumption of commodities. This optimising framework is set up in the following way:

\[ Z = Z(x, t_h) = Z \left[ \frac{a \hat{H}^1 t_w}{p_x}, t_h \psi(\hat{H}^2) \right]. \]

In this utility function, aggregate household consumption \( (Z) \) is comprised of wage related goods where \( \hat{H}^1 \) is the optimal capital stock for wages, \( a \hat{H}^1 \) the wage rate, \( p_x \) the price of market goods and \( t_w \) the time allocated to wage goods, and household goods, where \( \hat{H}^2 \) is the optimal capital stock for household goods, \( t_h \) is the amount of time allocated to households goods, and \( \psi \) is the productivity of household time. The solution to this optimisation, subject to a time constraint in which the available time can be allocated to either household or market
sectors (once time invested in maintaining the optimal level of human capital is deducted), is one in which the marginal productivity of the household sector equals the marginal productivity of the market sector.

This framework is then applied to the situation in which the household contains multiple individuals. In this case, aggregate household consumption for a household of \( n \) members is simply the sum of wage and households goods consumed by each household member in both sectors, where optimal capital stocks and time spent in each sector for the \( t \)th individual.

\[
Z = Z \left( \sum_{i=1}^{a} x_i, \sum_{i=1}^{n} t_{h_i} \right) = Z \left( \sum_{i=1}^{n} \frac{a \hat{H}_i t_{x_i}}{p_x}, \sum_{i=1}^{n} \hat{H}_i t_{h_i} \right).
\]

Whilst Becker discusses a range of implications of this framework, one important implication is that the allocation of time between sectors for each individual will depend on each individual’s human capital stock in each sector (and hence how effective their time will be in each sector). Where individual’s time is perfectly substitutable, then aggregate consumption will depend on the aggregate number of hours allocated to each sector. However, if individual household members accumulate different levels of market and household capital, then aggregate consumption will depend on how time for each sector is distributed across household members. It is this second scenario that is most important. If human capital differs between individuals, this creates a comparative advantage in either the market or household sector. Following, the optimal solution to the maximisation of aggregate household consumption will be where the marginal productivity of the household sector equals the marginal productivity of the market sector, in which household members supply time to each sector based on their comparative advantage, and indeed importantly this implies an increasing degree of specialisation in investment in different sector capitals and time allocated to each sector. Becker demonstrates that in an efficient household, members would specialise completely in either household or market sectors. This optimisation problem is
used to explain the sexual division of labour, as women accumulate domestic human capital (looking after children and other domestic activities) and men ‘market’ human capital (employment etc) due to differences in biology and their life experiences. Therefore, women have a comparative advantage in the household sector, and men a comparative advantage in the market sector, and so it is optimal for women to dedicate all their time (and investment in human capital) to the domestic sector, and men to the market sector following the logic presented above.

A second example from the author’s areas of expertise relates to sexual behaviour change in sub-Saharan Africa in light of the HIV/AIDS epidemic, in which Oster (2012) sets up a behavioural model to describe the factors that relate to how individuals chose the number of sexual partners they have, given that there is a degree of risk of HIV infection. In the model, individuals maximise their lifetime utility over two ‘life-periods’ in a world with HIV (Oster 2012):

\[ U_{tot} = u(\sigma_1) + p(1 - \sigma_1 \gamma \beta h)u(\sigma_2) \]

Individuals gain utility only through the number of sexual partners they choose in period one (\( \sigma_1 \)) and two (\( \sigma_2 \)), and make an optimal choice over the number of partners to have sex with in period one, taking into account information about how the number of partners they choose to have might impact their probability of surviving into period two: the general rate of HIV (h), the HIV transmission rate (\( \beta \)), and also their perceptions about the HIV rate (\( \Upsilon \)). In period two, the choice of partner is independent of the HIV rate, in which case, if an individual manages to survive beyond period one, in theory they can choose to have as many sexual partners as they want until the marginal utility of each additional partner is non-positive. On this basis, Oster (2012) anticipates that someone who is more likely to live longer has more of an incentive to reduce the number of partners they have in period one. This is tested for by estimating the relationship between levels of sexual behaviour and child
mortality, malaria, and maternal mortality, variables used to represent non-HIV adult mortality. Sexual behaviour is thus reduced to a trade-off between the lost utility of having less sex in period one, and the lost utility of dying prematurely and losing the opportunity of gaining utility through having sex in period two. The lesson from this model is that individuals in sub-Saharan Africa will respond rationally to external incentives, and that the key to stimulating health-enhancing investment (as having fewer partners is characterised as) is in improving non-HIV related life expectancy.

These examples illustrate the application of the Neoclassical framework, and specifically how optimisation models applied to non-economic issues are constructed based on a set of assumptions about how things work, the types of constraints involved, what outcomes are to be optimised, the decisions that need to be made within the model, and the efficient (in the economic sense) solutions that follow. This approach has been applied in many forms across a wide range of topics, issues and disciplines. In this way, Neoclassical economics not only invades the territory of other disciplines to answer commonly asked questions, but also determines how these questions are answered.

An alternative view – Marx’s base and superstructure

Having looked at one framework that purports to explain almost everything, we now turn to an alternative theoretical approach that also views the ‘economic’ as central, if not of utmost importance, when trying to understand both the economic and society more generally. In contrast to the application of a specific technical framework, the Marxian approach attempts to explain society at a different level of abstraction and in a markedly different way.

As discussed in Chapter 4, Marx gave primacy in his analysis to the sphere of production, rather than the sphere of exchange, and viewed the dynamics of economic and social change through the lens of Historical Materialism. One of the reasons that he did so is the philosophical underpinnings of the way that Marx viewed humans as a species. He
recognised that for all species, the most important problem that confronts them in both the long term and the short term was how to reproduce themselves on a daily basis, and how to reproduce themselves as a species (sexual reproduction). This is, as Eagleton notes, ‘what men and women, most of the time, have had to concern themselves with’ (Eagleton 2000).

One important distinguishing characteristic that sets humans (as a species) apart from the rest of the natural world is that the way humans reproduce themselves has changed over time, whereas for most (if not all) other species, this has remained fairly static. Further, these changes are brought about by conscious thought. This is discussed in a famous passage when Marx (1976) compares the actions of spiders and bees, who from some inbuilt instinct build complex webs and hives every year, to the practice of man:

A spider conducts operations that resemble those of a weaver, and a bee puts to shame many an architect in the construction of her cells. But what distinguishes the worst architect from the best of bees is this, that the architect raises his structure in imagination before he erects it in reality.” (Marx 1976)

In this way, bees construct complex hives, and have done so for many thousands of years with little change and will likely continue to do so in the future as they are not consciously involved in the process of designing them. This is not the case for man as a species, as the way that man has reproduced him/herself over time has changed significantly, from epochs in which humans were largely hunter gatherers living in caves, to later periods when humans began to settle on the land and engage in agriculture and animal husbandry, to recent times when our daily needs and wants are produced on an industrial scale. This defining characteristic diverts attention within Marx’s and Engels work to the ways that productive and reproductive activities have been organised across time, leading to the identification of a number of modes of production that are denoted by the differences in the way that production was socially organised (and thus leading to the development of a historical materialist
understanding of history). As Engels notes, ‘according to the materialist conception of history, the *ultimately* determining element in history is the production and reproduction of real life’ (Engels 1890).

The production and reproduction of real life is shaped by two different elements of these processes; the forces of production (technology, raw materials, labour power etc) and the relations of production (how production is socially organised) (see Chapter 4). Marx conceptualises the forces and relations of production as the economic structure of society, which are referred to as the ‘base’, and which determine and conditions all other aspects of society:

> In the social production of their life, men enter into definite relations that are independent of their will, relations of production which correspond to a definite stage of development of their material productive forces. The sum total of these relations of production constitutes the economic structure of society, the real basis on which rises a legal and political superstructure and to which correspond definite form of social consciousness. The mode of production of material life conditions the social, political and intellectual life process in general. It is not the consciousness of men that determines their being, but, on the contrary, their social being that determines their consciousness (Marx 1993).

Simply put, Marx is forwarding the notion that the world around us, the institutions, habits and customs, reflect the way that we, as a society, produce and reproduce ourselves. At this point in time, then, all aspects of society are influenced and shaped by capitalism, the current mode of production. Within the Marxist literature, there has been much debate (and disagreement) about this schema in terms of the way that the different layers of the base and superstructure are ordered, the extent to which they determine the other layers, and the degree to which the layers associated with the superstructure influence and condition the base.
Further, the base-superstructure analogy has been accused of being overly deterministic and mechanistic, removing any notion of agency that is associated with other elements of Marx’s work in which political struggle and action is viewed as necessary. Whilst this debate will not be resolved here, one version of this framework is presented by Plekhanov. The productive forces are viewed to be the starting point which condition the relations of production, and thus from which the socio-political system and mentality of man arise:

1. The state of the productive forces
2. The economic relations these forces condition
3. The socio-political system that has developed on the given economic basis
4. The mentality of social man, which is determined in part directly by the economic conditions obtaining, and in part by the entire socio-political system that has arise on that foundation
5. The various ideologies that reflect the properties of that mentality ((Plekhanov, Selected Philosophical Works, vol. III, pp. 167-8) in (Collier 2008))

This schema is not viewed to be deterministic, as all levels will influence and condition each other. However, the economic structure is viewed to be the determining factor in the last instance (Smith 1984). The superstructure also has an important role to play in terms of managing the contradictions that arise from the mode of production (contradictions which Marx views as inevitable) in line with ruling class interests (Eagleton 2000).

So what does Marx mean in practice when he views the ‘superstructure’ being determined by the base? One good example of the base-superstructure relation is education and the role of the schooling system in the capitalist economy. In the Marxist schema, education is viewed as a means of supporting the smooth functioning of a capitalist society, and this is its primary function, as opposed to other conceptions of education as a means of self-transformation and
empowerment. Firstly, the school system is primarily designed to serve the needs of the capitalist class by producing the next generation of workers, who are obedient and accepting of their place in society (and capitalism). They do this by ensuring that school mirrors the structure and power relations of the workplace (Bowles and Gintis 2002) in which the school is a setting where pupils are subordinate to teachers, have little control over what they do, and engage in a number of specific but seemingly unrelated tasks, with rewards for good performance. Secondly, the education system reproduces the inequities that are associated with the economic superstructure whilst giving the illusion of fairness and a meritocratic system, in which students are rewarded for hard work. This papers over the wealth of evidence that suggests educational outcomes are highly correlated with socio-economic indicators such as class, race and parents income (Au 2006). Finally, the schooling system promotes and entrenches core capitalist values, and thus plays an important ideological role, encouraging pupils to accept the economic system. In this way, the education system reflects the needs of the capitalist system, and the ideology of the ruling classes. More recently, as current students will know, the logic of the market is increasingly being applied to higher education. Following the financial crisis and debates about levels of government debt, universities are increasingly expected to serve the interests of business, with government demanding that universities produce graduates with the skills and capabilities demand by employers, and students are being recast as consumers who borrow large sums of money to pay for their studies as an investment in future income. Whilst historically higher education institutions have enjoyed a larger degree of autonomy from the state, this is being eroded, with higher education now reflecting more closely the demands and logic of the private sector (Naidoo 2008). Other issues that the base-superstructure analogy can be applied to include legal institutions (which are designed to primarily protect individual private property rights as
opposed to collective property rights) (Pashukanis 1924), culture (such as art, music) (Williams 1980), language and religion, to name but a few.

A second example serves to highlight why Marx (and others, such as Althusser) view the forces of production as the determining factor in the last instance, but also the interconnectedness of the base and superstructure. The forces of production, and in particular technological change, are viewed to be the starting point for a reorganisation of the relations of production, and other institutional changes at higher levels. This was the case during the emergence of the industrial revolution, a process in which Marx was particularly interested in due to the period in which he was writing. The invention of the steam engine enabled a number of different developments, including the rapid extension of a railway network that could be used to transport goods in greater quantities and more quickly than ever before, this opening up new markets, and the range of goods that could now be transported for sale in new markets (and especially perishable goods). Further, steam power was also utilised within the workplace, rapidly enhancing productivity as tasks that previously could only be carried out on a small scale by physical human labour could now be conducted by machine on an ever-expanding degree of scale and efficiency. These new capabilities lead to an expansion of larger scale industrial plants, with smaller petty capitalists put out of business and forced to enter formal waged employment, leading to a concentration of production in a limited number of larger scale enterprises. This illustrates how one important technological advancement in the forces of production thus had an impact on how production was organised (the relations of production). However, further technological developments would themselves be influenced by newly established relations of production, such as technology designed to extract labour from workers and to control and monitor workers productivity as employment in large scale industrial enterprises became more common. In this way (without reverting to a chicken-egg style debate), different layers of the base and superstructure
influence each other, emphasising that this is not intended to be a hierarchical, deterministic framework.

In this way, Marx’s ideas can provide a theoretical framework (Historical Materialism) through which we can understand the world around us in a dynamic sense, a meta-narrative that helps us explain how societies evolve and change, and the central importance of the economic sphere in this process. Whilst this framework can be applied to many things, it won’t necessarily give us the answer to why fridges have lights and freezers do not.

However, it emphasises the importance of the economic system in shaping the world around us, and thus an explanatory power that is distinct from the application of the Neoclassical framework through a focus on the totality of society as the unit of analysis, rather than the individual, and a focus on the workings of the social system rather than individual choices (as discussed in previous chapters).

**Solving the economic problem - what next?**

Keynes, writing in the 1930’s during the great depression, speculated on the potential for the economic problem to be permanently solved. The economic problem as defined by Keynes takes a similar line to Marx, in which the economic problem is ‘the struggle for subsistence [which] has always been hitherto the primary, most pressing problem of the human race – not only of the human race, but of the whole of the biological kingdom from the beginning of life in its most primitive forms’ (Keynes 1931). Whilst Marx formulates a materialist conception of history from this ongoing struggle, Keynes argues that man (as a species) may, in a hundred years, have solved this problem entirely. For Keynes, despite the fact that the great depression that was in full swing at the time of his essay on ‘Economics Possibilities for our Grandchildren’, the recent decades had seen huge increases in the productive capacity and efficiency of the industrial nations and living standards despite the large accompanying growth in the size of the population. These gains were contrasted against thousands of years
of relative stagnation, with the source of this rapid change located in technological advancement and the accumulation of capital, itself in part based on the profits accumulated as a result of colonial expansion, and the reinvestment of these profits. These forces lead to sustained and remarkable increases in output. For example, Keynes notes that factory output in the US increased by 40 percent between 1919 and 1925. Even at what may seem to be relatively low levels of expansion, a 2 per cent per year increase in capital accumulation would lead to a situation in which the capital stock will have increased by 7 to 5 times in a hundred years, a power he ascribes to the laws of compound interest (Keynes 1931). Keynes’ emphasis on technological change also led him to believe that ‘we may be able to perform all of the operations of agriculture, mining and manufacture with a quarter of the human effort to which we have been accustomed’ (ibid). Therefore, due to this degree of progress, Keynes speculated that with the standard of living between four to eight times higher in a hundred years (2030), that the economic problem, the struggle for subsistence, would have been solved. In this respect, Keynes differentiates the needs of human beings into those that are satiable (needs connected to the struggle for subsistence), and those that may still be insatiable (needs which are relative and primarily serve to make us feel superior to others). Amongst the many implications of solving the economic problem, Keynes goes on to speculate that the working week could be reduced to 15 hours (3 hour shifts) to ensure that the required employment is spread around (but more thinly) to compensate for the reduced demand for employment. Having solved the economic problem, man would then be faced with ‘his real, his permanent problem – how to use his freedom from pressing economic cares, how to occupy the leisure, which science and compound interest will have won for him, to live wisely and agreeably and well’ (ibid). Of course, Keynes recognised that this would come with challenges of adjustment, as man has been conditioned to ‘strive and not enjoy’ and has become used to the routine of the struggle for subsistence.
Although it is clear that some of these predictions have failed to materialise for a range of reasons, such as the failure of these gains to be distributed equally, the rise of new and expanding consumption needs, and the issue of labour being replaced by machinery (Carabelli and Cedrini 2011), there are some good reasons for revisiting this more obscure essay that has been written off by some Keynesian economists (Skidelsky 1992 in (Carabelli and Cedrini 2011). In particular, Keynes raises some important general questions about the role of economics in society and the potential for a different sort of human existence, along with a critical reflection on the way that the current economic system works:

‘When the accumulation of wealth is no longer of high social importance, there will be great changes in the code of morals. We shall be able to rid ourselves of many of the pseudo-moral principles which have hag-ridden us for two hundred years, by which we have exalted some of the most distasteful of human qualities into the position of the highest virtues. We shall be able to afford to dare to assess the money-motive at its true value. The love of money as a possession -as distinguished from the love of money as a means to the enjoyments and realities of life -will be recognised for what it is, a somewhat disgusting morbidity, one of those semicriminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease.

All kinds of social customs and economic practices, affecting the distribution of wealth and of economic rewards and penalties, which we now maintain at all costs, however distasteful and unjust they may be in themselves, because they are tremendously useful in promoting the accumulation of capital, we shall then be free, at last, to discard’ (ibid)

This passage captures some of Keynes’s unease at the way that capitalism as a system operates, as well as emphasising that changes in the economic system are inevitable and also desirable. The inequities in terms of access to resources and wealth that are inherent to the capitalist system and indeed necessary to support the accumulation of capital are viewed as
temporary and perhaps necessary evils, until a time when accumulation of wealth is not of central importance. Keynes’ views also force a rethink about broader, more philosophical questions related to the purpose of life as well as a reflection on socio-economic morals and values that are inherent in the current system, such as the pursuit and love of money. Indeed, this short essay sheds a critical light on central tenets of Neoclassical theory such as the infinite potential for consumption to provide utility, and the equating of high levels of consumption with happiness and the accumulation of material possessions (Carabelli and Cedrini 2011).

To some extent, the themes reflected in this short essay bear some similarity, entirely unintended, to Marx’s ideas. Marx, like Keynes, certainly viewed technological change as being vitally important as a driver of change. Further, Marx also shared the view that the solving of the economic problem would precede the transition to socialism, that only when the productive forces of capitalism have matured and man as a species is able to provide for himself on a material basis can questions around a more equitable distribution and perhaps a reorientation of social life away from the drudgery of material production to more humanly self-fulfilling activities. Finally, Marx also understood that inequalities in the distribution of wealth and access to resources underpinned processes of accumulation which are central in enabling investment in productive expansion. Indeed, to some extent Marx acknowledged (and perhaps even admired) the changes in productive capacity that the capitalist system had brought about:

The bourgeoisie cannot exist without constantly revolutionising the instruments of production, and thereby the relations of production, and with them the whole relations of society. Conservation of the old modes of production in unaltered form, was, on the contrary, the first condition of existence for all earlier industrial classes. Constant revolutionising of production, uninterrupted disturbance of all social conditions,
everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. (Marx and Engels 2002)

Therefore, and in contrast to claims about the explanatory power of economics, Keynes and to some extent Marx understood the potential for economics to solve the most pervasive and central problem that is faced by man, which would set the platform for the development of a different kind of world, free from the pressures of the struggle for subsistence. For Keynes, the achievement of this goal and the ushering of the era of the ‘good-life’ would entail a downgrading of the importance of economics and economists, a “matter for specialists – like dentistry”(Keynes 1931), and thus the success of economists to solve this problem at the same time makes them redundant!

**Economics IS the problem**

In contrast to the views of Keynes in which growth in capital accumulation and technological change could solve the economic problem, the focus on growth within capitalist economies has been subjected to criticism from the school of ecological economics (see Chapter 14). This critique discusses the relationship between economic growth within capitalist economies and environmental change, and proposes a radical re-orientation of the economy away from an economy that is primarily structured to deliver (or attempt to deliver) continuous economic growth, towards an economy that does not have growth as the sole end and is more focused on improving well-being in the broader sense, and perhaps even an economy that not only stops growing but also shrinks to a lower steady state. Of course, as discussed in Chapter 14, concerns about the environment and the physical limits of production are not new, having been a concern as far back as Malthus. The literature on ‘degrowth’ dates back to the early 1970s, though as with a number of alternative economic perspectives, has experienced a revival following the financial crisis in 2008 (Kallis et al. 2012). Whilst a range of views exist within the degrowth literature (see (van den Bergh 2011), there are a number of core
issues that are addressed and discussed. The underlying logic of this approach is that the current economic system is reliant on infinite economic growth, but that economic growth itself is unsustainable and will ultimately lead to dangerous and potentially catastrophic levels of climatic and environmental changes, as well as eroding the resource base upon which human life depends. Therefore, the economic system needs re-orientating towards a new paradigm in which degrowth (as in the economy not growing or contracting to a more manageable steady state) or a-growth (in which economic growth is no longer a central concern within the economy, but with economic growth itself not always viewed as a bad thing).

The starting point for most analyses is the fact the capitalist economies are structured to focus on delivering economic growth, and that this leads to a number of problems, as well as to some perverse outcomes. The economy is viewed to have three primary levels: the financial level, the real economy, and the ecological level (Alier 2009; Kallis et al. 2012). Whilst the financial level has gained prominence in recent years, the expansion of this level through the creation of loans and thus future debt obligations relies on the continuing expansion of the real economy to provide the means to pay these debts back. The real economy itself relies on the availability of natural resources and energy, and thus is conditioned by the ecological level. Offering an alternative explanation for the financial crisis, and perhaps the inevitability of crises in a system that is set up in such a way, as being caused by the fact that the real economy could no longer support the level of debt that had built up in the economy, and that the level of growth of GDP required to service these debts is ecologically unsustainable (Alier 2009). The interdependencies of the levels of this system also mean that other strategies for dealing with debt, such as cutting back on consumption, create even more problems through slowdowns in investment, increasing unemployment and consequent reductions in demand, so that the only way that debt obligations can be met is through
growth. Conversely, whilst the system is dependent on infinite economic growth, above certain levels of income, increasing income and thus the potential for expanded consumption does not lead to increased levels of happiness within the population (Easterlin et al. 2010). Therefore, whilst ever more attention is focused on supporting economic growth, economic growth itself is having little impact on the more general well-being. A second key theme highlighted in the degrowth literature which is related to the doctrine of economic growth and that requires addressing is the culture of consumerism, and the notion that, in contrast to neoclassical conceptions of economic man, that material desires are insatiable. Indeed, the degrowth literature (as would other views) sees this notion as one that is socially constructed, and an important element that is required in an economic system that is reliant on continuous expansion.

Even on its own terms, the Easterlin paradox provokes questions concerning the desirability or even the purpose of economic growth. However, within the degrowth literature, economic growth is not benign or welfare-enhancing, it has a large negative impact on the environment, and is one of the main contributing factors to the rapid pace of environmental destruction and the lack of progress towards achieving global environmental targets (such as the amount of carbon in the atmosphere). This is because economic growth requires an ever-increasing supply of natural resources, which are finite, and increasing amounts of by-products of industrial production, such as carbon dioxide, that require dealing with (and that are not). As Latouche notes, “human beings are turning resources into waste faster than nature can transform waste into new resources” (Latouche 2009). Further, and drawing on the above, the focus on economic growth in the light of the limited impact this has on human well-being, coupled with natural resource depletion and environmental destruction is thus characterised as a system that is out of control, that has been decoupled from human needs, and a system in which “we are heading for a crash. We are in a performance car that has no driver, no reverse
and no brakes and it is going to slam into the limitations of the planet” whilst being “well aware of what is happening” (Latouche 2009). This to some extent mirrors other views in terms of the dominance of the market, and how this human institution has taken on a life of its own.

Modelling in a range of scenarios suggests that the pace of technological change required to cope with current levels of economic growth to ensure that environmental targets can be achieved are up to 10 times faster than the current rate of technological progress (Jackson 2009 in Kallis et al 2010). This leads to the conclusion that economic growth is environmentally unsustainable in the long run. A further concern is that stocks of finite natural resources are not accounted for in standard measures of GDP, constituting inputs to the production process but without any consideration of the reduction in natural stocks as resources are utilised, which skews and overinflates growth figures.

The solution(s) posed to this issue relate to the reorientation and restructuring the economy to cope with either a slower or negative growth rate to reach a lower level steady state, in which growth is no longer a requirement. Whilst this realignment process may have potentially damaging effects such as unemployment, lack of demand and a negative impact on state finances, these can by-and-large be addressed in the short term by focusing new investment on green technologies (and thus maintaining employment), the reduction of hours worked, reduced material consumption, and investments in low-productivity and profitability but high labour intensity and satisfaction (Kallis et al. 2012). In the long term, more radical changes to the economy may involve new forms of property and ownership and communal forms of living (Kallis et al. 2012) that do not prioritise the needs of the economic system above the needs of the people and the planet (Muraca 2013). Latouche proposes a virtuous circle of contraction, as opposed to a virtuous circle of growth, achieved through a programme based on
the eight R’s: re-evaluate, reconceptualize, restructure, redistribute, relocalize, reduce, re-use and recycle (Latouche 2009).

This view of economic growth as something that is damaging and unsustainable is in contrast to other views of economic growth, such as the Keynesian view discussed above. As Whitehead (2013) notes, in Classical and perhaps even Neoclassical economics, economic growth is seen as a sign that the economy is in a healthy state (Whitehead 2013). This emphasises that it is important to interrogate even the most taken for granted phenomenon in economics. There are also some similarities between the degrowth literature and views relating to the role of consumption as a source of welfare (see Chapter 5), and the need to think about well-being in a broader sense. In the case of the degrowth literature, a change in economic and social values relating to consumption are vital if the system is to be re-orientated, echoing some of the comments made by Keynes about the present economic system. Further, and importantly, these ideas force us to think about more philosophical questions related to the sort of society we want to live in, the nature of human beings and the fact the economic values such as consumerism are not necessarily universal, rather temporary states of being that can (and perhaps should) be transcended. These questions are not unfamiliar to economics, as from the time of the Classical economists, economics has always been influenced by philosophical ideas. As discussed above, Smith and Marx both drew on philosophy to underpin their work.

**Conclusion**

This chapter, through a discussion of a number of different economists, has illustrated that alternative economic perspectives make competing claims relating to the explanatory power of economics, the ability (or not) of economics and capitalism specifically to solve the basic economic problem, as well as posing questions concerning the role of economics and the possibility of a time in which economics does not have the prominent position that it
currently has, and thus raises possibilities for a different kind of future. As with the previous chapters, this chapter has emphasised how different approaches come to different conclusions about the role of economics. It also enables a reflection on broader philosophical questions about social life and what it means to be a human being and the sort of future(s) that humans can imagine for themselves. These deeper questions also speak to economists such as Smith and many others since who are interested in fundamental concerns about human nature, illustrating that these questions have been at the centre of debates concerning economics for several centuries. Whilst these debates will continue in the coming years, we hope that this book has been convincing in promoting the view that many different perspectives have something to say about these questions, and that there is value in understanding, many, and not just one, way of thinking about economics.

Discussion Questions and Seminar Activities

Seminar questions

1. Do you agree with the claim that ‘economics explains almost everything’?
2. Should the aim of economists be to make themselves redundant?
3. Is there too much emphasis on economic issues and ways of thinking, and not enough thinking about what non-economic things help humans to live ‘the good life’?
4. Should increases in productivity be used to help us work less instead of consuming more?
5. Is economic growth always beneficial?

Activities

Watch the film (or a section) of Freakeconomics. Discuss the extent to which the approach taken influences:

- The sort of issues addressed
- How they are addressed
- Limitations of the approach

How would Marx approach the same issues that Freakeconomics does?

Further reading
For students interested in degrowth and ecological economics, see Tim Jackson (2011), 
Prosperity without growth, Routledge.

The transition from a broader political economy to a narrower version of economics is 
discussed in more detail in Fine and Milonakis ‘From Political economy to Economics’.

References