

Why Study Economics?

A Never trust an economist with your job

Most people think economics is a technical, confusing, and even mysterious subject. It's a field best left to the experts: namely, the economists.

But in reality, economics should be quite straightforward. After all, economics is simply about how we work. What we produce. And how we distribute and ultimately use what we've produced. Economics is about who does what, who gets what, and what they do with it.

At that simplest, grass-roots level, we all know something about the economy. And so we should all have something to say about economics.

Moreover, because we interact, cooperate, and clash with each other in the economy (even Robinson Crusoe didn't work alone — he had Friday around to help), economics is a *social* subject. It's not just technical, concrete forces like technology and productivity that matter. It's also the interactions and relationships between *people* that make the economy go 'round.

So you don't need to be an economist to know a lot about economics. Everyone experiences the economy. Everyone contributes to it, one way or another. Everyone has an interest in the economy: in *how* it functions, how *well* it functions, and in *whose interests* it functions. And everyone has a grass-roots sense of where they personally fit into the big economic picture, and how well they are doing (compared to others, compared to the past, and compared to their expectations). All of this is entirely legitimate fodder for economics.

Unfortunately, in my view, most professional economists don't think about economics in this common-sense, grass-roots context. To the contrary, they tend to adopt a rather superior attitude in their dealings with the untrained masses. They invoke complicated technical mumbo-jumbo — usually utterly unnecessary to their arguments — to make their case. They claim to know what's good for the people, even better than the people themselves do. They take great pleasure in expounding theories that are counter-intuitive and puzzling to the rest of us. They present themselves as interpreters of a mysterious realm which average people cannot hope to comprehend. And since they study things that are measured in billions or even trillions of dollars, their sense of importance grows — in their own eyes, and in others'.

That's why we see economists on the television news every night. We almost never see anthropologists, biologists, social workers, nutritionists, or architects on the nightly news. Perhaps we should hear more from those other professions, and less from the economists. Their advice

might actually be more important to our long-term economic well-being, than that of the economists.

Nothing better exemplifies economists' know-it-all attitude than debates over free trade. Conventionally trained economists take it as a *proven fact* that free trade between two countries always makes both sides better off. People who question or oppose free trade — unions, social activists, nationalists — must either be acting from ignorance, or else are pursuing some narrow vested interest that conflicts with the broader good. These troublesome people should be lectured to (and economists love nothing better than sounding forth about the counter-intuitive beauty of their theory of **COMPARATIVE ADVANTAGE**), or simply ignored. And that's exactly what most governments do. (Ironically, even some conventional economists now recognize that traditional comparative advantage theory is wrong, for many reasons — some of which we'll discuss in Part IV of this book. But that hasn't affected the profession's near-religious devotion to the doctrine of free trade.)

Worse yet, the arrogance of economists is not value-free. Outside the academic world, the vast majority of professional economists work for organizations with a deep vested interest in a certain kind of economy: banks, brokerages, corporations, industry associations, and governments.

Inside academia, meanwhile, most economists (though certainly not all) are wedded to a particular, peculiar version of economics — called **NEOCLASSICAL ECONOMICS**. This kind of economics is as ideological as it is scientific. It was developed in the late nineteenth century to *defend* capitalism, not just explain it. And it still goes to great lengths to try to prove a whole portfolio of bizarre, politically-loaded, and obviously untrue propositions: like claiming that merely owning financial wealth is itself productive, that everyone is paid according to their productivity, or that unemployment doesn't even actually exist.

Whether in universities or in the real world, therefore, most economists fully believe that competition, inequality, and the accumulation of private wealth are central, natural, and desirable features of a vibrant, efficient economy. This value system infuses their analysis and their recommendations. Outside of academia, it is reinforced by the fact that most economists are directly employed by organizations which have benefited mightily from the current, lopsided economic system.

I think we need a more democratic economics, a more grass-roots approach. I think we need an economics that starts not from abstract assumptions (like the other-worldly theory of **PERFECT COMPETITION**, which we'll explain in Chapter 11), but instead starts from the concrete circumstances of average peoples' lives. We need an economics for everyone.

My approach is not motivated by an “anti-expert” mentality. I would not want to be operated on by an untrained medical student. And people who make important economic decisions, and give important economic advice, should be formally trained in economics.

But debates over economic issues are not technical debates, where expertise alone settles the day. They are deeply *political* debates, in the broad sense of that word: distinct groups of people have distinct interests, they know their interests, and they work to promote them. This occurs everywhere in the economy — and economics shouldn't pretend that it doesn't.

A hard-working labourer has very different economic interests from a red-suspended currency trader. And the labourer has as much legitimate right to comment on economic debates as that trader. (In fact, in hard economic terms, the labourer almost certainly produces more

real value than the currency trader — despite the enormous sums of money passing through the trader’s computer every business day.) But the elitism of economics disempowers and silences the voices of non-experts.

My main goal with this book, and throughout my career as an economist, has been to encourage non-experts — workers, union members, consumers, activists, neighbours — to develop their natural, grass-roots interest in economics, by:

- Studying the economy, and learning more about how it functions.
- Thinking concretely about their personal role and stake in the economy (rather than focusing only on abstract things like GDP, stock markets, or foreign exchange).
- Recognizing that the economy embodies distinct groups of people with distinct interests, and that economics itself reflects those distinctions and conflicts. Economics is not a neutral, technical discipline.
- Being ready to challenge, when necessary, the way “expert” economists explain the economy and (even more dangerously) tell us how to improve it.

The economy is too important to be left to the economists. Ordinary people have valuable knowledge to add about the economy — knowledge that’s usually ignored by the experts. More importantly, the analysis and advice of the experts is all too often compromised by their role (and their employers’ role) in the economy they are telling us how to manage. Everyone has a stake in the economy. Everyone has economic interests they need to identify and protect. Learning about economics will help them understand where they fit into the bigger system, and help them fight for a better deal.

An economist may tell you that your job depends on the central bank raising interest rates to control inflation (in the long-run, anyway). An economist may tell you that free trade will increase your productivity and hence increase your income (although you may have to find a new job in the process). An economist may tell you that eliminating collective bargaining and minimum wages will actually make you richer (although, just as with aerobic exercise, this might hurt you at first...no pain, no gain!).

Don’t trust an economist with your job. Learn about economics yourself. And make up your own mind about what might protect your job — and what might destroy it.

A society in which ordinary people know more about economics, and the often conflicting interests at stake in the economy, is a society in which more people will feel confident making up their own minds about what’s best — instead of trusting the experts. It will be a more democratic society.

B Capitalism: The economy we know

So far, we’ve been speaking very broadly about “the economy.” But in fact, this book is about the workings of a particular kind of economy, called capitalism. “Capitalism” and “the economy” are not the same thing — even though many economists pretend capitalism is a natural, permanent state of affairs, and hence is the *only* type of economy. However, there were other economies that existed before capitalism. And I tend to think there will be other economies that come after capitalism, too.

Capitalism has particular features and forces that need to be identified, just to understand how it works. This is true regardless of how you feel about capitalism. Just to understand what's happening in capitalism, we need to identify and study its crucial facts:

- Most people have to work for others, in return for a wage or salary.
- A small proportion of society owns the bulk of wealth, and uses that wealth in an effort to generate still more wealth.
- Competition between companies, each trying to maximize its own profits, forces them to behave in particular, sometimes perverse ways.

It seems bizarre, but conventional economists mostly ignore these central facts (with the partial exception of the third). They don't even use the word "capitalism." Instead, they call our system a "market economy." The fact that a few people own immense wealth, while most people own almost nothing, is considered accidental or even irrelevant. (In order to ignore distributional issues, conventional economists use a theory known as the **REPRESENTATIVE HOUSEHOLD**, in which every family is assumed to own a perfectly equal share of all wealth, all labour, and all other resources. But this sounds more like socialism than capitalism!) They claim, incredibly, that the economy would be exactly the same whether capitalists hired workers, or workers hired capitalists.

These central and unique features of capitalism impart particular kinds of behaviour and motion to the economy. They explain why capitalism is *dynamic*: flexible, creative, and always changing. They explain why capitalism is *conflictual*: with ongoing struggles and conflicts between different groups of people. They explain why capitalism is *unstable*: exhibiting periods of growth and prosperity, followed by periods of stagnation and recession.

Economists who ignore the key features of capitalism will be less able to understand and explain how capitalism actually works. So purely from a scientific perspective, it's important to be frank about what we are dealing with.

Of course, economists of all political stripes carry political baggage. I certainly do. It's impossible to name and analyze capitalism, without passing judgement on it. (Conventional economists pretend that the "positive" science of describing the economy can be separated from the "normative" practice of evaluating and trying to improve the economy — but this phony distinction has never been very successful.)

Capitalism has been immensely successful, on many criteria. It ushered in the industrial era, and the prosperity (for some people, but not everyone) that came with it. It ruthlessly undermines old-fashioned restrictions and taboos, and probes endlessly to find new ways of generating private profit (some of which are socially useful, some of which are not). It harnesses immense energy, creativity, and discipline from many of its participants.

On the other hand, capitalism has obviously failed to live up to many of its promises. Billions of the world's people endure hardship, poverty, and premature death, even though humanity clearly possesses enough resources and wealth to utterly abolish these afflictions. Vast resources — like the talent and energy of hundreds of millions of unemployed and underemployed individuals — are chronically misused or wasted. The natural environment is deteriorating rapidly in the face of the profit-maximizing, cost-shifting imperatives of private profit; global climate change is the latest, potentially most catastrophic symptom of this failure. And even on its own terms — the

rapid investment of private capital to generate profit — capitalism may be running out of steam (something we will discuss in Chapter 12).

I am critical of capitalism's failings — but I am also respectful of its flexibility and its staying power. I am utterly convinced that there are many obvious changes that would help the economy meet human and environmental needs, without breaking fundamentally from the underlying logic which drives the whole system. I also believe that it is ultimately possible to build an alternative economic system motivated by our direct desire to improve the human condition, rather than a hunger for private profit. (Exactly what that alternative system would look like, however, is about as clear as mud.) We'll consider these criticisms of capitalism, and alternative visions, in the last chapters of this book.

But quite apart from whether or not one thinks capitalism should ultimately give way to something better, capitalism is something we must study. It's the economy we live in, the economy we know. And the more that ordinary people understand about capitalism, the more they'll be able to extract as much well-being from it as they possibly can.

C The organization of this book

This book has five major parts, which cover the following subject areas:

1. Preliminaries: The first part of the book defines the economy, and identifies the unique features of a capitalist economy. It also provides some historical background. We discuss how capitalism emerged and evolved, and also how the study of *economics* emerged and evolved. In both cases, we highlight the conflicts and controversies encountered en route to the present-day. I believe that studying economic history and the history of economic thought is an inherently subversive undertaking. It refutes the assumption that capitalism is “natural” and hence everlasting, and the related claim that economics is the neutral, technical study of that natural, everlasting economy.

2. The Basics of Capitalism: This part of the book studies the core activities and relationships that make up capitalism. First we discuss *work*. Broadly defined, work (or human effort) is the essential ingredient that drives everything in the economy. But we don't work with our bare hands; we must work with tools. We have to make those tools, and (in capitalism, anyway) someone owns them. Most work in capitalism is undertaken by employees who are paid wages or salaries for their efforts. But much work also occurs without any payment, inside households, as people care for themselves and their family members. We describe this basic economic “circle,” in which profit-seeking investment initiates production, generates employment, and allows people (supplemented by unpaid work at home) to support themselves.

3. Capitalism as a System: After introducing these basic, core relationships, Part III describes how the capitalist economy functions as an overall system. It describes competition between firms; the determination of overall investment; the determination of overall employment; the distribution of income; the relationship between the economy and the natural environment; and the economy's typical roller-coaster pattern.

4. The Complexities of Capitalism: Apart from the basic relationships between private companies, their workers, and households, there are other important players in modern capitalism. We introduce these players and what they do in Part IV. We start with the monetary and financial system. The financial industry itself is not inherently productive, but it plays a crucial role in

facilitating investment and distributing profits. We also introduce government and its diverse, often contradictory economic functions. And we start to describe capitalism on a global level: globalization, foreign trade, capital flows, and economic development. The smaller, simple “circle” we described in Part II of the book, now becomes a lot bigger and more complex.

5. Challenging Capitalism: Now that we’ve described capitalism as a complete, global economic system, the final part of the book evaluates capitalism: both its successes, and its failures. It considers ways in which capitalism could be reformed, so that it more effectively meets human needs and protects the natural environment. And it considers whether or not it is realistic to imagine completely different ways of organizing the economy in the future.

D Building an economic “map”

This book describes an economy of gradually increasing complexity — starting with the simplest relationships within an individual company, shifting our focus to the interaction between competing companies, and eventually considering the roles of the financial industry, government, and globalization.

To portray these increasingly complex relationships, this book provides a series of economic “road maps,” illustrated by Tony Biddle. The maps use simple visual icons to identify the major players, and then connects the dots between them. By the time we’ve explained our economic “big circle” at the conclusion of Part IV, this map will be a very handy tool for finding your way around capitalism: both locating where you are, and figuring out where you’re going.

E The *Economics for Everyone* website

The overarching goal of this book is to make economics as accessible and even entertaining for non-specialist readers as possible. That’s why we’ve kept the book short, used plain language, illustrated it with Tony Biddle’s awesome cartoons, and avoided (wherever possible) the use of academic-style citations and references.

For those who want to continue their study of grass-roots economics, however, we have provided additional information and resources. These are posted, free of charge, at a special *Economics for Everyone* website, generously hosted by the Canadian Centre for Policy Alternatives (Canada’s major progressive think tank): www.economicsforeveryone.com

The following materials are available at the website:

- **Instructor resources:** We hope that unions, community groups, schools and colleges, and other organizations will use *Economics for Everyone* as a teaching resource for grass-roots economics instruction. To this end, the website includes a sample 13-session course outline (based on material in this book), lecture slides for 13 lectures, and 13 sets of hands-on, entertaining student exercises. The book and the web-based materials thus constitute a ready-made teaching resource. With them, any progressive organization can undertake to offer basic instruction in economics to its members, without any formal pre-requisites. We also encourage instructors to supplement these materials with local information and resources.
- **Supplementary materials:** As a back-up reference to the hard-copy book, the website provides a glossary (defining key terms and concepts), a list of suggestions for further

reading (including links to organizations which undertake progressive economic research and education), and a complete list of sources for the data and citations included in the book. (The on-line glossary includes an entry for every term in this book that is highlighted in **BOLD SMALL CAPITALS**, like this.)

- **Sample chapters:** The *Economics for Everyone* website provides a few sample chapters of the book, to give interested browsers a sense of its content and tone.
- **The E4E blog:** Through this blog discussion, I will answer questions, report on public events and reactions to the book, and provide updates addressing current economic issues and controversies.

F It's up to you

Your impressions, responses, questions, and suggestions are invited and appreciated. They will help to refine and improve this work for future editions and applications. Send your feedback to economicsforeveryone@caw.ca. Within the constraints of my paying job (as economist for the Canadian Auto Workers), I will endeavour to respond to every query.

A Note on Sources and Citations

To keep this book as readable and uncluttered as possible, we have dispensed with most of the formal references, source notes and citations common in formal academic books. Most of the statistical information contained in the book (including graphs and tables) was obtained from standard public sources (national statistical agencies, or international organizations like the United Nations and the Organization for Economic Cooperation and Development). Specific sources for this data are provided in the on-line list of sources, available at the *Economics for Everyone* website. Similarly, most direct quotations listed in the book come from classic, well-known sources; specific publication details for these quotes are also reported in the on-line source list. In many places, the text of the book refers to research findings or conclusions supported by the broader economic literature; specific sources supporting these conclusions are also listed in the on-line source list.

The exceptions to this approach are the few instances where I have referred to data collected or analyzed originally by other researchers (rather than data from standard public sources), or where I have repeated quotations from a secondary source (when another researcher located and reported the original quotation). In these cases the other researcher's work must be acknowledged, and formal citations are provided in the hard-copy text.

Any readers with additional questions regarding sources and citations are welcome to contact the author directly.

Whose Economics?

I once attended a dinner speech given by the Secretary-General of the Organization for Economic Cooperation and Development (the “club” of developed capitalist countries). He was promoting the concept of “economic literacy.” He argued that if more people in society understood the fundamentals of economic theory (like supply and demand, competition, and free trade), then they would go along more readily with policy “reforms” implemented by their governments — even if those reforms were painful.

As an example, he referred to the dramatic (and successful) protests that occurred in France in 2006 against government efforts to weaken labour protections. The changes would have made it easier for employers to fire workers, especially young workers. If the French understood that these seemingly painful “reforms” actually make the labour market function more efficiently, he argued, they wouldn’t have protested.

This kind of “literacy” sounds more like brainwashing to me, than education.

During the question period, I took issue with the OECD President’s assertion that the French do not understand economics. Compare France to the U.S. — the economy most often held up as the prototype of an efficient, flexible, market-driven system. On average, French workers work 300 hours per year less than Americans (that’s 7 extra weeks off per year). Yet they produce more value-added per hour of labour than Americans. Unemployment is higher in France — yet most unemployed French receive more income (in social benefits) than employed low-wage Americans. As a result, the French have enough money, and lots of time, to eat in restaurants, make love, and attend protest demonstrations (not necessarily in that order!).

In America, meanwhile, there are almost 9 million *employed workers* whose incomes leave them below the official poverty line (which is still based on the standard of living in 1964). Their hard work is not taking them far. Yet in a recent survey, an incredible 39 percent of Americans indicated that they either were already in the wealthiest 1 percent of society, or else believed that they would soon be there.* The mathematical impossibility of this bizarre belief has not (yet) undermined the American myth of “upward mobility” — a myth which inhibits hard-working, poor people from standing up and demanding a better deal.

Ironically, later in 2006 the OECD itself published economic evidence indicating that employment protection laws (like the French regulations) have no visible impact whatsoever on unemployment rates.

So who really understands economics? I think it’s the French protestors. *Vive le France!*

* Survey conducted by Time/CNN, cited in Andrew Glyn, *Capitalism Unleashed: Finance, Globalization and Welfare* (Oxford:Oxford University Press, 2006), pp. 179.