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The Economy and Economics

Take a walk

The economy must be a very complicated, volatile thing. At least that's how it seems in the business pages of the newspaper. Mind-boggling stock market tables. Charts and graphs. GDP statistics. Foreign exchange rates. It's little wonder the media turn to economists, the high priests of this mysterious world, to tell us what it means, and why it's important. And we hear from them several times each day – usually via monotonous "market updates" that interrupt the hourly news broadcasts. Company X's shares are up two points; Company Y's are down two points; the analysts are "bullish"; the analysts are "bearish."

But is all that financial hyperactivity really what the economy is about? Is economics really so complex and unintelligible? Should we trust the "experts" and analysts at all? Maybe we should find out what's going on for ourselves.

Forget the market updates. Here's a better way to find out about the economy – *your* economy. Take a walk. And ask some questions.

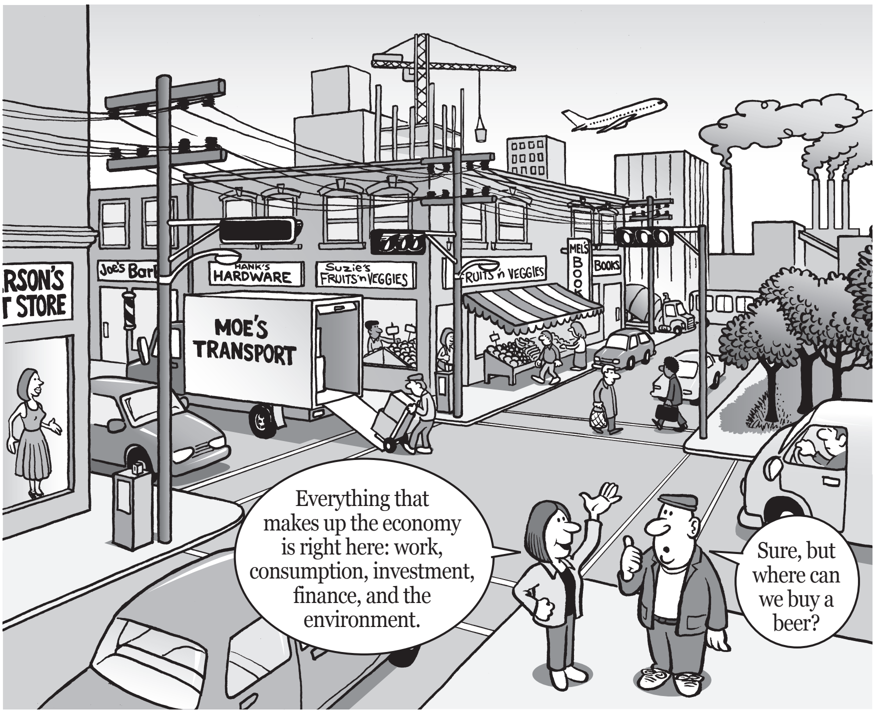
Start at the front door of your own household. How many people live there? What generations? Who works outside the household, and how much do they earn? How long have they been working there? How long do they plan to keep working, and how will they support themselves when they retire? What kind of work goes on inside the household? How many hours? Is it paid or unpaid, and who does it? Who does which chores? Are there any children? Who cares for them? Does anyone else in your home require care? Do you own your house or apartment, or do you rent it? If you rent it, from whom? If you own it, how did you pay for it? What shape is it in?

Now walk through your neighbourhood, and the next neighbourhood. Are the homes or apartments all roughly the same, or different? Does everyone have a home? Are the homes well-cared-for, or falling apart? Do most people have jobs? What sorts of jobs? Are they well off? Can they comfortably pay for the things they and their families need?

Watch your neighbours going off to work, school, or other destinations. How are they travelling? In their own cars? On public transport? Walking? How much money, time, and physical space is devoted in your neighbourhood to "getting around"?

Is there a school in your neighbourhood? A hospital? A library? Who pays for those buildings? Who works there? How do those public facilities compare with the private homes and businesses around them? Are they newer, or older? Nicer, or shabbier? Is there anywhere a person can go inside in your neighbourhood (other than their own home) without having to pay money or buy something?

Are the streets clean? If so, who cleaned them? Is the air fresh or smoggy? Are there any parks in your neighbourhood? Is there anywhere to play? Can people in your neighbourhood safely drink the water from their taps? How much do they pay for that water? And to whom?



Walk through the nearest shopping district. What kinds of products are displayed in the windows? Were any of them produced locally (say, within 100 miles of your home)? Elsewhere in your country? In another country? Can your neighbours afford what they buy? Are they usually happy with their purchases, or disappointed? Do they pay with cash, bank cards, or credit cards?

Now walk to a local bank branch and see what's happening inside. Compare what you see (deposits, withdrawals, home loans) with the activities you read about in the business pages of the newspaper (leveraged buyouts, financial speculation, foreign exchange). Which matters more to day-to-day life in your neighbourhood?

This is a good time to stop at a café. Pull out a pencil and paper. List your approximate monthly income. Then list how much of it goes to the following categories: rent or mortgage (including utilities); income taxes; car payments or public transport; groceries; other "stuff" (merchandise); and going out (entertainment). Can you comfortably pay your bills each month? Do you regularly save? Is your income higher than it was five years ago, lower, or about the same? Has your income increased faster than the prices of the things you buy? If you had a little more income, what would you do with it? If you walked back to that bank and asked for a loan, would they give you one?

Apart from the places we've mentioned (schools, stores, and banks), what other workplaces are visible in your neighbourhood? Any factories? What do they produce, and what shape are they in? Any professional or government offices? Other services? Can you see any office buildings from your neighbourhood? Who works there? Can you guess what they do? Imagine the conditions in those offices (spaciousness, quality of furnishings, security, caretaking), and compare them to conditions inside your local school. Which would be a nicer place to spend time?

Have any new workplaces opened up recently in your neighbourhood? If so, what do they do? Or did you see any businesses that have closed down? Did you see any "help wanted" signs posted in local workplaces? What kinds of jobs were they advertising for?

Now you can return home. Congratulations! You've done a lot more than just take a stroll. You've conducted a composite economic profile of your own community. It has no statistics, charts, or graphs (though you could add those if you wish, with a bit of work at the local library). Nevertheless, just by walking around your neighbourhood, asking questions, and taking notes, you have identified the crucial factors determining economic affairs in your community:

- **Work** Who works? Who works inside the home, and works outside the home? Are they employed by someone else (and if so, who?), or do they work for themselves? Do they get paid, and if so, how much? What tools do they use? Are they productive and efficient? Is it hard to find a job?
- **Consumption** What do people need to buy, in order to stay alive? What do they wish for, to make their lives better? Can they afford it all?
- **Capital and Investment** What kinds of tools and technology do people use in their work? And who buys them? Private companies and public agencies must spend money maintaining and expanding their facilities and workplaces (this is called investment), or else the economy (and your neighbourhood) goes quickly downhill. Is that happening? Or is the state of these different "tools" being run down?

- **Finance** Most economic activity (but not all) requires money. Where do people get money? How is it created and controlled? Who gets to spend it? What do they spend it on?
- **Environment** Everything we do in the economy requires space, air, and inputs of natural materials. What's the state of the natural environment in your neighbourhood? Is it valued by the community, or taken for granted? Are there strict rules regarding pollution, dumping, and land use? Or can people and businesses treat the environment as they please?

These are the building blocks from which the most complicated economic theories are constructed: work, consumption, capital (or "tools"), finance, and the environment. And they are all visible, right there in your neighbourhood. As we go through this book, we will build a simple but informative economic "map" that includes all of these elements.

Don't ever believe that economics is a subject only for "experts." The essence of economics is visible to everyone, right there in your own 'hood. Economics is about life – *your* life.

What is the economy?

The economy is simultaneously mystifying and straightforward. Everyone has experience with the economy. Everyone participates in it. Everyone knows something about it – long before the pinstripe-wearing economist appears on TV to tell you about it.

The forces and relationships you investigated on your walk are far more important to economic life than the pointless ups and downs of the stock market. Yet our local economic lives are nevertheless affected (and disrupted) by the bigger and more complex developments reported in the business pages.

At its simplest, the "economy" simply consists of all the work that human beings perform, in order to produce the things we need and use in our lives. (By work, we mean all productive human activity, not just employment; we'll discuss that distinction later.) We need to organize and perform our work (economists call that **PRODUCTION**). And then we need to divide up the fruits of our work (economists call that **DISTRIBUTION**), and use it.

What kind of work are we talking about? Any kind of work is part of the economy, as long as it's aimed at producing something we need or want. Factory workers, office workers. Executives, farmers. Teachers, nurses. Homemakers, homebuilders. All of these people perform productive work, and all of that work is part of the economy.

What do we produce when we work? Production involves both goods and services. **GOODS** are tangible items that we can see and touch: food and clothes, houses and buildings, electronics and automobiles, machines and toys. **Services** are tasks that one or several people perform for others: cutting hair and preparing restaurant meals, classroom instruction and brain surgery, transportation and auditing.

Where do we perform this work? Productive work occurs almost everywhere: in private companies, in government departments and public agencies. Work also occurs in the home. In cities, in towns, on farms, and in forests.

Why do we work? We must survive, and hence we require the basic material needs of life: food, clothing, shelter, education, medical care. Beyond that, we want to get the most out of our lives, and hence we aim for more than bare-bones subsistence. We want a greater quantity, and a greater variety, of goods and services: for entertainment, for travel, for cultural and personal enrichment, for comfort, for meaning, for security. We may also work because we enjoy it. Perversely for economists (most of whom view work solely as a "disutility"), most people are happier when they have work to do – thanks to the social interaction, financial well-being, and self-esteem that good work provides.

How do we distribute, and eventually use, the economic pie we have baked together? In many different ways. Some things are produced directly for our own use (like food grown in a garden, and then cooked in a household kitchen). Most things we must buy with money. We are entitled to consume certain products – like walking down a paved street, listening to the radio, or going to a public school – without directly paying anything. Importantly, some of what we produce must be re-invested (rather than consumed), in order to allow for more economic activity in the future.

So when you think about the "economy," just think about work. What work do we do? What do we produce? And what do we do with what we've produced?

The economy and society

The economy is a fundamentally *social* activity. Nobody does it all by themselves (unless you are a hermit). We rely on each other, and we interact with each other, in the course of our work.

It is common to equate the economy with private or individual wealth, profit, and self-interest, and hence it may seem strange to describe it as something "social." Indeed, free-market economists adopt the starting premise that human beings are inherently selfish (even though this assumption has been proven false by sociobiologists and anthropologists alike).

In fact, the capitalist economy is not individualistic at all. It is social, and in many ways it is cooperative. The richest billionaire in the world couldn't have earned a dollar without the supporting roles played by his or her workers, suppliers, and customers. There's no such thing as a "self-made" millionaire or

Economics Matters

"The mode of production of material life determines the social, political and intellectual life process in general."

Karl Marx, German philosopher and economist (1859).

"It's the economy, stupid."

James Carville, political advisor to US President Bill Clinton (1992).

billionaire: every one of them needed other people to play their required roles (as workers, suppliers, or customers) in order for them to become so rich. Indeed, our economic lives are increasingly intertwined with each other, as we each play our own little roles in a much bigger picture. That's why most of us live in cities (where the specialized, collective nature of the economy is especially visible). And that's how we can interact economically with people in other countries, thousands of miles away.

So the economy is about work: organizing it, doing it, and dividing up and making use of its final output. And in our work, one way or another, we always work (directly or indirectly) with other people.

The link between the economy and society goes two ways. The economy is a fundamentally social arena. But society as a whole depends strongly on the state of the economy. Politics, culture, religion, and international affairs are all deeply influenced by the progress of the economy. Governments are re-elected or turfed from office depending on the state of the economy. Family life is organized around the demands of work (both inside and outside the home). Being able to comfortably support oneself and one's family is a central determinant of happiness.

So the economy is an important, perhaps even dominant, force in human development. That doesn't mean that we should make "sacrifices" for the sake of the economy – since the whole point of the economy is to meet our material needs, not the other way around. And it certainly doesn't mean that we should grant undue attention or influence to economists. But it does mean that we will understand a great deal about human history, current social reality, and our future evolution as a species, when we understand more about economics.

What is economics?

Economics is the study of human economic behaviour: the production and distribution of the goods and services we need and want. Hence, economics is a social science, not a physical science. (Unfortunately, many economists are confused on this point! They foolishly try to describe human economic activity with as much mechanical precision as physicists describe the behaviour of atoms.)

Economics encompasses several sub-disciplines. Economic history; money and finance; household economics; labour studies and labour relations; business economics and management; international economics; environmental economics; and others. A broad (and rather artificial) division is often made between **MICROECONOMICS** (the study of the economic behaviour of individual consumers, workers, and companies) and **MACROECONOMICS** (the study of how the economy functions at the aggregate level).

This all seems relatively straightforward. Unfortunately, the dominant stream in modern economics (**NEOCLASSICAL ECONOMICS**, which we'll discuss more in Chapter 4) makes it more complicated than it needs to be. Instead of addressing broad questions of production and distribution, neoclassical economics focuses narrowly on *markets* and *exchange*. The purpose of economics, in the neoclassical mindset, was defined by one of its founders (Lord Lionel Robbins) back in 1932, in a definition that is still taught in universities today:

> "Economics is the science which studies human behaviour as a relationship between given ends and scarce means which have alternative uses."

Embedded in this definition is a very peculiar (and rather dismal) interpretation of economic life. Scarcity is a normal condition. Humans are "endowed" with arbitrary amounts of useful resources. By trading through markets, they can extract maximum well-being from that arbitrary endowment – just like school kids are happier when they can trade their duplicate superhero cards with one another in the playground. An "efficient" economy is one which maximizes, through exchange, the usefulness of that initial endowment – regardless of how output is distributed, what kinds of things are produced, or how rich or poor people are at the end of the day. (This curious and narrow concept of efficiency is called **ALLOCATIVE EFFICIENCY**.)

As we'll learn later in this book, by defining the fundamental economic "question" in this particular way, neoclassical economics misses many important economic issues related to production, innovation, development, and fairness. Its dour emphasis on scarcity as a natural and permanent condition also leads to an inherent receptiveness to policies of **AUSTERITY** and belt-tightening.

I prefer to keep economics more simple, immediate, and concrete. We'll stick with a much broader definition of economics: the study of how humans work, and what we do with the fruits of our labour. Part of this involves studying markets and exchange – but only part. Economics also involves studying many other things: history, technology, tradition, family, power, and conflict.

Economics and politics

Economics and politics have always gone hand-in-hand. Indeed, the first economists called their discipline "political economy." The connections between economics and politics reflect, in part, the importance of economic conditions to political conditions. The well-being of the economy can influence the rise and fall of politicians and governments, even entire social systems.

But here, too, the influence goes both ways. Politics also affects the economy – and economics itself. The economy is a realm of competing, often conflicting interests. Determining whose interests prevail, and how conflicts are managed, is a deeply political process. (Neoclassical economists claim that anonymous "market forces" determine all these outcomes, but don't be fooled: what they call the "market" is itself a social institution in which some people's interests are enhanced at the expense of others'.) Different economic actors use their political influence and power to advance their respective economic interests. The extent to which groups of people tolerate economic outcomes (even unfavourable ones) also depends on political factors: such as whether or not they believe those outcomes are "natural" or "inevitable," and whether or not they feel they have any power to bring about change.

Finally, the social science which aims to interpret and explain all this scrabbling, teeming behaviour – economics – has its own political assumptions and biases. In Chapter 4 we'll review how most economic theories over the years have been motivated by political considerations. Modern economics (including this book!) is no different: economics is always a deeply political subject.

Measuring the economy

Gross domestic product (GDP) is the most common way to measure the economy. But beware: it is a deeply flawed measure. GDP adds up the value of all the different goods and services that are produced *for money* in the economy. GDP is thus one measure of the total value of the work we do – but only the work we do for money.

In the private sector of the economy, GDP adds up the market prices of everything that's bought and sold. In the public and non-profit sectors, it is based on the cost of everything that's produced. In both cases, statisticians must deduct the costs of the many inputs and supplies purchased in any particular industry, from the total output produced by that industry. (This is so that we don't double-count the work that went into all those inputs.) In this way, GDP is designed to only include the **value added** by new work at each stage of production.

An obvious drawback of GDP is that it excludes the value of work that is *not* performed for money. This is a highly arbitrary and misleading exclusion. For example, most people perform unpaid chores in their households, and many must care for other family members (especially children and elders). Some of this household work can be "outsourced" to paid help: cleaners, nannies, and restaurants (the richer you are, the more you can outsource). In this case it is included in GDP. But if you "do it yourself," then it doesn't count! Volunteer work and community participation are other forms of valuable, productive work excluded from GDP.

This phony distinction has big consequences for how we measure the economy. Unfortunately, things that we measure often take on extra importance (with the media, and with policy-makers), purely because they *can* be measured. GDP underestimates the total value of work performed in the economy, and hence misjudges our productivity. It undervalues the unpaid work done within our homes and our communities. Because of sexism at home and in the workplace, most of that unpaid work is done by women; hence, GDP underestimates the economic contribution of women.

It's especially misguided to interpret GDP as a measure of human well-being. We've seen that there are many valuable things that are not included in GDP. On the other hand, many of the goods and services that *are* counted in GDP are utterly useless, annoying, or even destructive to human well-being – like dinner-hour telephone solicitations, many pharmaceuticals, excess consumer packaging, and armaments production. Moreover, just because a society produces more GDP is never a guarantee that most members of society will ever receive a bigger amount of it.

So we must be cautious in our use of GDP statistics, and we must never equate GDP with prosperity or well-being.

Despite these caveats, GDP is still an important and relevant measure. It indicates the value of all production that occurs for money. This is an important, appropriate piece of information for many purposes. (For example, the ability of governments to collect taxes depends directly on the money value of GDP.) We need to understand the weaknesses of GDP, and supplement it with other measures. Above all, we must remember that expanding GDP is never an end in itself. At best, properly managed, it can be a means to an end (the goal of improving human well-being). Indeed, there is a positive but imperfect relationship between GDP and human welfare (see box). This suggests that we need to be concerned with how much we produce, but just as concerned with what we use it for.

To be meaningful, GDP figures must take several additional factors into account. If the apparent value of our work grows purely because of **INFLATION** (which is a general increase in the prices of *all* goods and services), then there hasn't been any actual improvement in the economy. Therefore we distinguish between **NOMINAL** GDP (measured in dollars, pounds, or euros) and **REAL** GDP (which deducts the effect of inflation). There are many other economic variables (such as wages and interest rates) for which this distinction between nominal and real values is also

GDP and Human Well-Being

The United Nations Development Program produces an annual ranking of countries according to their "human development." The UN defines human development on the basis of three key indicators: GDP per capita, life expectancy, and educational attainment. We've already seen that GDP is a highly misleading measure. The UN approach tries to broaden that by including two other criteria (health and education), but it is still far from perfect. It attaches value to GDP, but attaches no value to social equity, leisure time, and other important human goals.

Nevertheless, it is interesting to compare the ranking of countries according to human development, with their ranking according to GDP. In general, countries with high human development also have high levels of GDP per capita (partly because GDP is itself one of the three variables used to calculate the index, but also because higher GDP allows a society to devote more resources to health and education). This indicates that economic development (increasing both the amount and the quality of production over time) is indeed very important to standard of living.

However, the link between GDP and human development is not perfect. Some countries rank higher in the UN list than they do on the basis of GDP alone. This indicates they are more efficient at translating GDP into genuine human welfare (usually thanks to extensive public services, financed with high taxes). On the other hand, countries which rank lower on the UN list than in the GDP standings are relatively ineffective at translating GDP into well-being; many of these countries have relatively low taxes, weak public programs, and large gaps between rich and poor (reflected In low living standards for most people).

Table 1.1 summarizes the key human development statistics for selected countries, from the UN's 2014 report. High-tax Norway (where government spends over 50 percent of GDP on public programs) ranks first. Low-tax America ranks fifth (despite having the third-highest GDP in the world); its life expectancy is the lowest of any developed country. For each country, the difference between its GDP rank and its human development rank is an indicator of its success at translating GDP into genuine well-being; this difference is reported in the fourth column. A positive score in this column indicates that a country makes the most of its GDP; a negative score indicates the opposite. Tiny Georgia – which ranks 106th according to income, but 70th according to human development – does more, given its GDP, to improve human welfare than any other country in the world. Sri Lanka, Argentina, and Poland are other countries which "punch above their weight" according to human development. On the other hand, oil-rich Equatorial Guinea does the worst job of any country at channelling GDP into well-being: it ranks 34th according to income, but only 138th for human development. Iraq and South Africa also have very low human development rankings, despite relatively high GDP, primarily because of low life expectancy and a very unequal distribution of income.

Table 1.1 **GDP and Human Well-Being**

Country	*Human Development Index Rank* (HDI)*	*Income Rank**	*Income Rank – HDI Rank†*	*Income per Capita (US$)*	*Life Expectancy (years)*
Norway	1	1	0	$63,909	81.5
Australia	2	11	9	$41,524	82.5
Switzerland	3	2	–1	$53,762	82.6
Netherlands	4	8	4	$42,397	81.0
United States	5	3	–2	$52,308	78.9
Germany	6	5	–1	$43,049	80.7
New Zealand	7	20	13	$32,569	81.1
Canada	8	10	2	$41,887	81.5
China	81	78	–3	$11,477	75.3
India	125	120	–5	$5,150	66.4
Selected Human Development "Over-Achievers"					
Georgia	70	106	36	$6,890	74.3
Sri Lanka	73	93	20	$9,250	74.3
Argentina	39	53	14	$17,297	76.3
Poland	29	41	12	$21,487	76.4
Selected Human Development "Under-Achievers"					
Equatorial Guinea	134	38	–96	$21,972	53.1
Gabon	102	55	–47	$16,977	63.5
Iraq	110	67	–43	$14,007	69.4
South Africa	108	74	–34	$11,788	56.9

* Excluding city states and oil-producing monarchies.
† A positive score indicates better HDI ranking than GDP ranking.
Source: United Nations Development Program, *Human Development Report* (2014).

important. **ECONOMIC GROWTH** is usually measured by the expansion of real GDP. Economic growth usually consists of two components: an increase in the amount of work that is performed, and improvements in efficiency or **PRODUCTIVITY** (that is, increases in the amount of output produced by each hour of that work).

A country's GDP could expand simply because its population was growing – but this does not imply the country is becoming more prosperous. This is important when comparing growth rates across countries. For example, in countries with near-zero population growth (such as Europe and Japan), even the slow growth of real GDP can translate into improved living standards; this is not the case where population is growing more quickly. Therefore, economists often divide GDP by population, to get a measure called **GDP PER CAPITA**. This, too, can be expressed in both nominal and real terms. Real GDP per capita is often used as a rough indicator of prosperity (and its growth over time) – although we must always remember that GDP excludes many valuable types of work, and says nothing about how production is distributed.

Growth: good or bad?

GDP equals the total value of all the goods and services produced for money in the economy, and increases in real GDP (adjusted to strip out the effects of inflation) are an indication of economic growth. Newspaper headlines report breathlessly on the latest GDP statistics, as if they were a bellwether for our overall economic health. But growth for growth's sake cannot be the end-goal of our economic activity. As we have seen, simply producing more GDP does not imply that we are producing the right stuff, dividing it fairly, or using it wisely.

Politicians like to boast about strong GDP growth. But the economy is not actually managed to maximize growth … far from it. In fact, as we will learn in coming chapters, it has been a central, deliberate goal of economic policy in recent decades to tightly restrict growth (in order to maintain a "healthy" pool of unemployed people, and thus keep a lid on wages). Economic growth since the late 1970s has been anemic at best across most advanced economies – and since the **GLOBAL FINANCIAL CRISIS** of 2008–09, it has been virtually nonexistent. While individual companies always strive to expand their sales and profits (to satisfy shareholders and boost executive bonuses), whether this translates into economy-wide growth depends on the overall state of affairs (including whether governments and their agencies, like **CENTRAL BANKS**, actually want more growth).

And while some commentators pretend that growth is somehow our overarching economic goal, others have concluded that economic growth itself is actually the enemy. Particularly among those rightly concerned with the environmental side-effects of economic activity, there is a common view that if we restrict or even halt economic growth, then pollution, climate change, and other environmental problems would be abated. We will discuss the relationships between the economy and the environment in detail in Chapter 16. But in general I think it is misplaced to blame economic growth, in and of itself, for environmental problems. Some types of economic activity clearly harm the environment, but some do not – and some types of work, obviously, are good for the environment (like building green energy and public transit systems, cleaning up toxic waste sites, and others). The issue is not how much work we are collectively performing, but what we are doing, how, and what our output is used for.

Moreover, while growth in its own right does not necessarily make us better off, many economic and social problems clearly get worse when the economy stops growing. Unemployment rises, since there is not enough work for everyone who needs it. (Due to ongoing productivity growth, even a stable level of real GDP over time will translate into ever-fewer jobs.) Incomes fall for many in society, making it harder to make ends meet. And inequality gets worse. In fact, whenever economic growth rates are low relative to the rates of profit generated on financial wealth, there is a powerful tendency for more wealth to become concentrated in the hands of very rich households. (This mechanism was effectively highlighted by the French economist Thomas Piketty in his important 2014 book, *Capital in the Twenty-First Century*.) Even from an environmental perspective, it is not clear that stopping growth (at least under the current rules of the game) makes things better.

The growth rates reported in quarterly GDP statistics are ultimately a by-product of decisions made by powerful economic players: mostly private companies in our economy, influenced by governments and (somewhat) by worker attitudes and public opinion. Our economic system today is not managed to maximize growth: if it was, it would look very different than it does today, and everyone who wanted a job could have one. In reality, the economy is managed to maximize the profits and power of private companies, and the well-off people who own them. Our goal is to find ways to challenge that power, and in so doing alter the criteria on which all economic activity is undertaken. We should be performing work not because it is profitable, but because it is useful. And there is plenty of useful work that needs to be done in our society: caring for each other, caring for the environment, producing the goods and services necessary for us all to lead a rich, full life (and ensuring we have enough leisure time to enjoy the fruits of our labour). Performing all that necessary work would add to our GDP, no doubt about it. But so long as we are doing more good things with our work, and fewer destructive, that should be beneficial, both socially and environmentally.

For those reasons, this book does not generally talk about economic growth as either a goal, or as something to be avoided. What shows up as economic growth in the GDP statistics is merely a consequence of other decisions made across the economy (and in the present economy, those decisions are made by companies and governments concerned mostly with maximizing profits). Instead of focusing on growth (good or bad), I prefer to focus on work, quality of life, and sustainability. There is much work to be done, and billions of people who desperately need work to support themselves. So let's connect those dots – and design an economy that puts people to work, doing important things, in a way that benefits both human society and the natural environment.

What is a good economy?

Economics tries to explain how the economy works. But economists naturally wonder how to make it work *better*. This inherently requires the economist (and every citizen) to make value judgements about what kind of economy is more desirable. Most economists, unfortunately, are not honest about those value judgements; they try to pretend that their profession is "scientific" and hence value-free, but this is a charade.

Deciding what economic goals to pursue will reflect the priorities and interests of different individuals, communities, and classes. It is an inherently subjective, political choice.

You Write the Book: Economic Value Judgments

There is no objective or neutral way to evaluate the performance of an economy. Whether an economy works well depends on the goals and interests of the people it is supposed to serve. In addition to or instead of the seven criteria suggested in this chapter, specify one or more additional goals that you think an effective economic system should meet. In your judgment, what is a "good" economy? Send your Ideas to author@economicsforeveryone.com. We'll post several examples at www.economicsforeveryone.com.

Here is my list of key economic goals. In my view, the more of these goals an economy achieves, the better off people will be:

1. **Prosperity** An economy should produce enough goods and services to support its citizens and allow them to enjoy life to the fullest. Prosperity does not just mean having more "stuff." It means enjoying a good balance between private consumption, public services, and leisure time. (Incidentally, leisure time is another valuable thing that doesn't appear in GDP statistics.)
2. **Security** People should be confident that their economic conditions are reasonably stable. They shouldn't have to worry about being able to support themselves, to keep their homes, and to pass on decent economic opportunities to their children. The economic insecurity faced by billions of people today undermines their quality of life in concrete ways. Even people who may never lose their job or home, spend a great deal of time and energy worrying that they might. That fear is costly, and may lead to decisions that undermine economic performance and social well-being. By the same token, economic security – being able to sleep at night without worrying about your livelihood – is valuable in its own right.
3. **Innovation** Economic progress requires us to think continuously about how to make our work more effective and useful. This continuous improvement is called "innovation"; it includes imagining new goods and services (products), and better ways of producing them (processes). An economy should be organized in a way that promotes and facilitates innovative behaviour, or else it will eventually run out of creative energy and forward momentum.

4. **Choice** Individuals have different preferences, hopes, and dreams (although those preferences are strongly shaped by social pressures). They should have reasonable ability to make economic decisions – including the sort of work they do, where they live, and what they consume – in line with those preferences. There is a gigantic, ideological myth that only free-market economies truly respect individual "choice." This is obviously wrong: the choices of billions of human beings are brutally suppressed by the economic hardship and social divisions which are a natural outcome of global capitalism. Moreover, the services offered by the public sector (schools, health care, culture, parks) substantially expand the choices available to people (especially those with lower incomes) – certainly more so than being able to choose among a dozen different brands of toothpaste at the supermarket. I accept that individual choice is an important economic goal – and I argue there are better ways to enhance true choice than through free-market capitalism.
5. **Equality** Inequality is harmful if it means that large numbers of people are deprived of the ability to work and enjoy their lives. In this sense, the goal of equality is bound up with the goal of prosperity (so long as we define "prosperity" correctly, as widespread well-being, rather than equating it with the growth of GDP). But inequality is also inherently negative in its own right. Even if those at the bottom of the economic spectrum still enjoyed some decent minimal standard of living, a concentration of wealth at the top will nevertheless undermine social cohesion, well-being, and democracy. Researchers from many disciplines (including psychology, criminology, epidemiology, and physiology) have confirmed that people's emotional well-being is negatively influenced by unfavourable self-comparisons to the lifestyles of others who are much better off than they are. In this way, inequality produces distinct negative consequences, quite apart from the consequences of poverty. (We will consider these consequences in more detail in Chapter 14.) Therefore, limiting the economic distance between rich and poor is an important economic goal.
6. **Sustainability** Humans depend on their natural environment. It directly enhances our quality of life (through the air we breathe, the water we drink, and the spaces we inhabit). And it provides needed inputs that are essential to the work we do in every single industry. As we will learn, all production involves the application of human work to "add value" to resources and materials we get from nature. Of course, maintaining the environment is important in its own right (all the more so if we accept that humans have some responsibility to the other species which inhabit our planet). It is also important in a more narrowly economic sense, since our ability to keep producing goods and services in the future will depend on finding sustainable ways to harvest (without continuously depleting or polluting) the natural inputs we need.

7. **Democracy and accountability** We've seen that the economy is an inherently social undertaking. Different people perform different functions. Some individuals and organizations have great decision-making power, while others have very little. How do we ensure that economic decisions, and the overall evolution of the economy, reflect our collective desires and preferences? And how do we monitor and ensure that people and institutions are doing the work they are supposed to? Modern capitalism has a well-developed but narrow notion of private-sector accountability, through which corporations are guided carefully to maximize the wealth of their shareholders. Competitive markets also impose another narrow form of accountability, enforced through the threat of lost sales and ultimate bankruptcy for companies which produce shoddy or unduly expensive products. Democratic elections allow citizens to exert some influence (through their governments) over economic trends – although the ability of elected governments to steer a capitalist economy is fundamentally constrained by the unelected power of businesses and investors. None of these limited forms of accountability provide for thorough or consistent channels of democratic control over the economy. Yet given the overarching importance of the economy to our general social condition, we are entitled to more genuine and far-reaching forms of economic democracy and accountability.

Is our present economy a good economy? In some ways, modern capitalism has done better than any previous arrangement in advancing many of these goals. In other ways, it fails the "good economy" test miserably. The rest of this book will endeavour to explain how the capitalist economy functions, the extent to which it meets (and fails to meet) these goals – and whether or not there are any better ways to do the job.