

Back to basics: What is economics, and what is it for?

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Abstract

As 65+ student associations from 30+ countries stated in their Open Letter in 2014 (see www.isipe.net), “It is not only the world economy that is in crisis; the teaching of economics is in crisis too”. The theory and education of economics need radical rethinking, and this rethinking must begin with basic questions: What is economics and what is it for? What was the political economy of classical economic thinkers like Smith, Ricardo and Marx, and how did it become economics? If neoclassical economics (which is still the dominant school of thought today despite all its weaknesses) has become such a dismal science as the students protested, how should it be reformed to help humanity prevent social and ecological disasters, and achieve higher goals like sustainable well-being, ecological stability, social equity, social justice and happiness? Political economy is more about qualitative analysis and verbal explanation like history, whereas neoclassical economics is dominated by quantitative analysis and mathematics. “Premature mathematisation”, as denoted by E.F. Schumacher (author of “Small is Beautiful”), was fostered in neoclassical economics by factors like mechanistic worldview (industrial paradigm), rational consumer assumption (Homo economicus), consumerism, monetary reductionism and physics envy. Equating wealth (value) to exchange value played a critical role for the development of monetary reductionism, which was one of the fundamental ideological pillars of the growth obsession (growthism) in mainstream economics since 1950. In my opinion, all these factors collaborated to make economics a kind of business ideology and an art of money management (chrematistics) rather than a scientific study of economy. Spreading beliefs like “money justifies everything” (e.g. “if a company is earning money in legal ways, it must be producing something useful for the society, and creating new jobs”), conventional economics is often used to justify exploitative earnings that drain wealth from local communities and future generations into the hands of powerful investors. Economics must be redefined to become the study of “economy in the broad sense” which means “sustenance, livelihood and living space (Lebensraum) management” (oikos+nomia). As Veblen’s said, “economics must be an evolutionary human science” with clearly stated and openly discussed higher goals like ecological stability, social justice, social equity, democracy and most important of all, sustainable well-being for all. This short conversational essay represents my personal opinions to stimulate further discussions and clarifications.

Text

Before “economics” there was “political economy”. All classical economic thinkers like Adam Smith, D. Ricardo, J. Stuart Mill and K. Marx used the term “political economy” for their studies.

Let’s see, how **political economy** is defined in [investopedia](https://www.investopedia.com/terms/p/political-economy/) (Kenton, 2019):

“Political economy is an interdisciplinary branch of the social sciences that focuses on the interrelationships among individuals, governments, and public policy. Those who study political

economy seek to understand how history, culture, and customs impact an economic system. Global political economy studies how political forces shape global economic interactions, and how economic theories such as capitalism or communism play out in the real world.”

The term **economics** was coined by the Scottish historian Thomas Carlyle in 1849, and popularized by the pioneers of neoclassical economics like Alfred Marshall at the beginning of the 20th century. They began to use “economics” as a synonym for “economic science”.

You may ask, what is then the difference between political economy and economics? Are they simply two different terms for the same thing?

No, considering their scope and content, there are some important differences between political economy and economics. Compared to economics, political economy has a much broader view to economy including social and political realities of life, like economic history, power relations, alienation (from work, product, society, nature), imperialism and exploitation.

Political economy is more about qualitative analysis and verbal explanation like history, whereas quantitative analysis and statistics became quite prevalent in economics.

How did **mathematics**, or in Schumacher’s terms “premature mathematisation” (Schumacher, 1973) become so dominant in economics?

Aside from business interests that preferred to ignore nonmonetary reproduction (i.e. production and recycling) of nature & society as well as nonmonetary costs (i.e. externalities), four features of neoclassical economics played key roles for the **premature mathematisation** of economics:

1. The domination of human-centred, mechanistic and reductionist worldview since industrial revolution (Merchant, 1990; Kütükcüoğlu, 2019, August 1)
2. The fallacious “utility-optimizing, independent (individualistic) rational consumer” assumption (Homo economics)
3. Reduction of wealth and value to exchange value only (i.e. market value or money) ignoring the distinction between use value and exchange value
4. Physics envy; founders of neoclassical economics (e.g. Jevons, Walras, Menger) believed that in order to be a real respectable science, economics must become a mathematical science like Newton physics.

The **rational consumer** assumption was very convenient for mathematisation because it made elegant abstract formulations like “wealth Pareto-optimising market equilibrium” theories possible. The only problem with this assumption was, it was wrong; as modern science shows today, human behaviour is neither rational (in neoclassical sense) nor independent from the social and ecological environment.

The “rational consumer” assumption was constructed on the belief that we call “consumerism” today; human well-being can be improved indefinitely by proper combinations and amounts of market goods and services. Founders of neoclassical economics envisaged humans as “rational utility-maximizing consumers” whose well-being increased continuously as they spent more and more money.

Associating well-being directly with money meant underestimating non-monetary and qualitative (social & ecological) factors of well-being as a cognitive side-effect.

Discussions about **use value** (real wealth) and **exchange value** (market value, price) was always a hot topic in the history of economic thought.

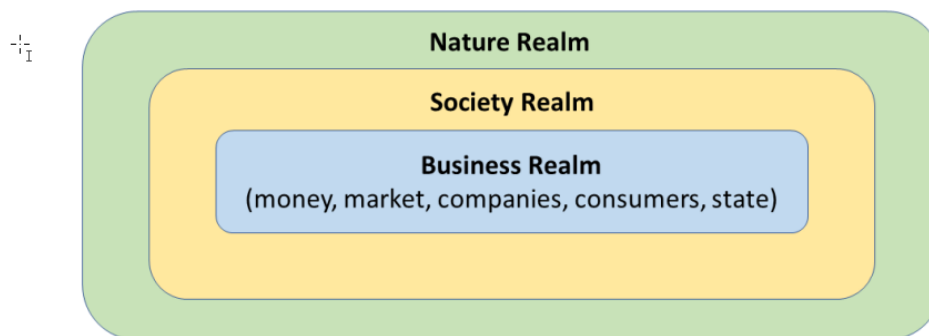
For the classical economic thinkers like Smith, Ricardo, Mill and Marx, it was very important to understand the source of real material wealth (i.e. use value of materials). That’s why, they were very careful about differentiating use value from exchange value. They were quite aware of the fact that an

abundant material resource like water, soil or air, that we find in nature for free, may have great use value even if it had no exchange value (i.e. market value) at all (Mazzucato, 2018).

The distinction between use value and exchange value was dropped with the advent of neoclassical economics. Neoclassical economists cared only about exchange value (i.e. price in the market). That is, they equated wealth to money (consciously or not), just like they equated wellbeing to economic growth (consciously or not). This kind of **monetary reductionism** had the consequence that, all the things that we find in nature for free were considered as free (valueless) gift, because value (as well as wealth) meant only exchange value for neoclassical economists. (Foster, Clark, York, 2010)

In “Small is Beautiful” (1973), on page 14, Schumacher wrote: “The illusion of unlimited power, nourished by astonishing scientific and technological achievements, has produced the concurrent illusion of having solved the problem of production. The latter illusion is based on the failure to distinguish between income and capital where this distinction matters most. Every economist or businessman is familiar with the distinction, and applies it conscientiously and with considerable subtlety to all economic affairs – except where it really matters – namely, the irreplaceable capital which man had not made, but simply found, and without which he can do nothing. ... One reason for overlooking this vital fact is that we are estranged from reality and inclined to treat as **valueless** everything that we have not made ourselves.”

Monetary reductionism had many serious consequences. One of them was reducing the whole economy to **business realm** ignoring society and nature: households, firms, state, money, market, and that's all.



Because economy was reduced to business realm, economics has largely become, as Thorstein Veblen said, a **business ideology** which is often used for the legitimization of exploitative earnings (i.e. privatisation of profits, socialisation of costs). Promotion of dirty mining, dirty industry or industrial agriculture with huge social costs as “economic development and growth, modernisation, job creation and technological progress” is a typical example.

65+ student associations from 30+ countries stated in their [Open Letter](#) (ISIPE, 2014), “It is not only the world economy that is in crisis. The teaching of economics is in crisis too, and this crisis has consequences far beyond the university walls.”

Is the mainstream theory of economics taught at most economy departments a real science in the service of the whole humanity including future generations, or a mere business ideology in the cloak of science, that serve to the narrow interests of a privileged minority (i.e. business people, investors and their stakeholders)?

Conventional economics wants us believe, “if an individual or a company is earning money in legal ways, it must be producing something useful for the society, and creating new jobs”. (Kütükcüoğlu, 2020, July 23)

This claim ignores many legal ways of earning money with huge hidden (social & ecological) costs to society, like dirty mining/industry/energy projects, or industrial agriculture based on ecologically unsustainable mechanistic monocultures (e.g. corn, soja, wheat, cotton) that are artificially maintained with poisonous chemicals (i.e. fertilizers and pesticides).

This is a myth, much inspired by the **invisible hand** argument of Adam Smith, that ignores invisible social and ecological costs (negative externalities) to today's societies and future generations.

This is probably the most central, most popular, and for the short-term financial interests most useful myth that boils down to: "Every medium is right for earning money and power, provided that it has a legal and ideological cloak."

Business interests have today sufficient power over politics and governments to legalize (or criminalize) almost everything they want. Criminalizing organic seeds to enforce GM seeds in many countries through government intervention is a typical example. Industrial agriculture with harmful agrochemicals was often imposed by global organisations like World Bank and World Trade Organisation in the name of "Green Revolution", technological progress, modernisation, economic development and growth, efficiency improvement and job creation. (Shiva, 2016)

In most universities, students learn economics together with its twin department "business administration". Thus, monetary economics (i.e. business realm) is strongly represented but nonmonetary economics (i.e. ecology and anthropology) is totally missing. In some economics departments you can even find offices of neoliberal foundations and powerful investment groups. Have you ever seen an office for ecological or anthropological literacy in an economics department?

Hence, economics as thought today seems more like chrematistics (art of making money) than the "study of economy":

Chrematistics: The art of making money, often at all costs to nature and humanity (money justifies everything!)

Economy (oikos+nomia): Household or living space (Lebensraum) management; management of livelihood and sustenance (Shiva, 2019).

Whereas chrematistics is about the management of money, economy is about the management of sustenance. Sustenance is not only about monetary goods & services one can buy at the market; sustenance is also about nonmonetary goods & services provided by nature and society for free. In fact, most essential and vital things like clean air, clean water, mild climate, fertile soils, marine and forest products are reproduced by the nature; nature is the primary reproducer. Without the primary reproducer we humans cannot even live, let alone producing anything to drive the economy.

Because conventional economics reduced economy to business realm (households, firms, money, market, state), it has become more chrematistics than the study of economy.

Let's see, how economics is usually defined:

Economics: A social science that deals with the production, distribution, consumption of goods and services.

Recycling is missing, and the designation of "social science" is an unnecessary limitation that exclude natural sciences like biology, chemistry and physics. A much better definition would look like as follows:

Economics: An evolutionary and holistic (social & ecological) human science that deals with human needs along with the reproduction (i.e. production and recycling), distribution and consumption of

goods and services to satisfy human needs. Note: Nature (i.e. living ecosystems like oceans, forests, lakes and rivers) is the primary producer and recycler.

Here is another common definition of economics:

Economics: Study of how society uses its limited (scarce) resources.

History tells us, seemingly unlimited resources like clean air, clean water or fertile soils may easily become limited within time, and vice versa. Luxuries of the past may become normalities of today, and vice versa. For example, assets like winter and summer residence sites, stimulating natural and social environment and healthy organic food enjoyed by many traditional societies are luxuries today for the majority of city dwellers. Hence, economics must consider all kinds of resources; limited and non-limited, living and non-living, considering complex (social & ecological) relationships and cycles with a long-term view into the past and future.

This definition of economics with focus on scarce resources is misleading because it might give students (especially to students without sufficient ecological literacy) the impression that there are two fixed categories of resources in life (scarce and abundant) with rigid and impermeable boundaries; a scarce resource remains always scarce; an abundant resource remains always abundant.

In reality, the coverage of these categories may change dynamically within time, depending on many social and economic factors. For example, depending on economic policies (e.g. growth or degrowth economy), clean drinking water may remain (or become) an abundant free good provided by nature (i.e. produced and distributed by nature), or a scarce monetary good provided by companies like Nestle (i.e. produced by nature, controlled and distributed by Nestle).

Imagine a settlement policy that supports sustainable and self-sufficient villages with ecological gardening (e.g. permaculture) as the central concept. Such a policy would shift fresh fruits and vegetables from monetary to nonmonetary realm.

There is another trap in associating economics with scarce goods only. Scarce goods are usually monetary goods that can be controlled and distributed by corporations. Creating artificial scarcity either by ecosystem mutilation (Kütükcüoğlu, 2019, May 5) or by social engineering (e.g. advertisement industry and mainstream media that create artificial needs) is one of the most common ways of transforming nonmonetary goods into monetary goods. Hence, focusing on scarce goods means, in a way, limiting the scope of economics to monetary goods only (i.e. business realm).

Therefore, a much better definition of economics would look like as follows:

Economics: Study of how society uses its (limited and unlimited) resources.

Having clarified what economics should study, the next question is:

What is economics for? Why should we study economics? What is the ultimate purpose of economic policies?

I know, many mainstream economists claim, economics is not about political and ethical issues. They say, economics is not a normative science; it is just an objective and analytical science like physics that provide us with mental tools to formulate the policies to we want. What policies and outcomes we want should be determined by ethics and politics; not by economics.

Like many critical-minded students of economics, I don't agree with this claim.

Economics is not a science which is free of ideology or politics as it often pretends to be. As an example, it promotes "economic growth" as the ultimate measure and purpose, and striving for economic growth has many serious political and ethical consequences (Hickel, 2020) like:

- Increasing monetary production at the cost of social and environmental destruction; i.e. increasing monetary production at the cost of massively destroying nonmonetary reproduction
- Stealing wealth from local communities and future generations to make a handful of powerful investors and their stakeholders extremely rich
- Overshooting physical and ecological planetary limits; stealing life from future generations
- Driving the whole economy 180 degrees away from a more equitable distribution of wealth; accumulating wealth into the hands of a powerful minority

Politics, ethics and economics cannot be separated. Economics students must be aware of the political and ethical consequences of economic policies. Highest goals of economics openly must be discussed and stated. Otherwise, they will be hijacked by narrow business interests with misleading proxies like economic growth (Raworth, 2017).

In my opinion, the ultimate goal of all economic policies should be “sustainable well-being for all” including future generations. All established terms and measures like “economic development” and “economic growth” must be critically questioned. Development, a much misused term that was hijacked from biology (e.g. development of an embryo), must be redefined like the whole theory and education of economics. (Shiva, 2014)

What should economics students learn as the fundamental background? The required body of knowledge can be derived from the typical inquiries for sustainable well-being:

- What are the most basic needs of people? Which basic needs depend on culture or environment, which needs are universal?
- How do (and did) people live considering different cultures and environmental conditions? What kind of cultures and lifestyles are there? How did these cultures and lifestyles evolve?
- What makes a lifestyle sustainable or unsustainable?
- What makes people happy or unhappy? What kind of policies are required for the happiness of the majority?
- What kind of technologies serve to the wellbeing of the majority? What kind of technologies serve only to the interests of a minority? What makes a technology sustainable or unsustainable?

Looking at these inquiries, I come to the conclusion, that evolutionary (cultural & biological) **anthropology**, also covering modern societies, should be at the centre of economics education. As Veblen said, economics should be an evolutionary human science.

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