

ECONOMICS FOR EVERYONE

A SHORT GUIDE TO THE ECONOMICS OF CAPITALISM

JIM
STANFORD

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Economics for Everyone

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website: www.economicsforeveryone.com

e-mail Jim Stanford: author@economicsforeveryone.com

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A Short Guide to the Economics of Capitalism

Jim Stanford

Illustrations by Tony Biddle

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*Dedicated to the hard-working people who produce the wealth
– in hopes that by better understanding the economy,
we can be more successful in changing it.*

Check out
www.economicsforeveryone.com
for more background info, a glossary,
and material you can use to run your
own economics course.



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This book had its genesis in an on-line course in basic economics for union members, that was jointly developed by my union (the Canadian Auto Workers, CAW) and McMaster University in Hamilton, Canada. As that project unfolded, I began to imagine that our efforts to teach economics in an accessible but critical way could have wider applications in other trade union and social change settings. I thank my colleagues David Robertson (at CAW) and Wayne Lewchuk (at McMaster) for their cooperation, support, and patience on that initial project – and for their outstanding commitment to developing worker-friendly pedagogy in this and many other subject areas.

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Nobody develops their ideas in a vacuum, and I owe an intellectual debt to the many passionate, principled, and rigorous economists who have taught and influenced me over the years: my free-thinking professors at the University of Calgary, Cambridge, and the New School; my colleagues in the Progressive Economics Forum; and my soulmates in the broader community of heterodox economists (special mention to the late David M. Gordon, Tom Palley, Dean Baker, Malcolm Sawyer, Steve Keen, and the late Andrew Glyn).

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Introduction

Why Study Economics?

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 around.

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). This is the stuff economics should be made of.

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 expounding their beautiful 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 Four 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 the status quo: 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, or that everyone is paid according to their productivity, or that unemployment doesn’t even actually exist.

* Throughout the book, terms highlighted in SMALL CAPITALS are defined in the on-line glossary at the book’s website, www.economicsforeveryone.com.

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's not based on 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 people's 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 naturally 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 to say about economics as the 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, activists, consumers, 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 abstract indicators like gross domestic product (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 economic knowledge – knowledge that’s usually ignored by the experts. More importantly, the analysis and advice of the experts is all too often compromised by their position 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.

Watch Out!

“The purpose of studying economics is not to acquire a set of ready-made answers to economic questions, but to learn how to avoid being deceived by economists.”

Joan Robinson, British economist (1960).

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 productivity and hence increase incomes (although you may lose your job in the process). An economist may tell you that eliminating unions and minimum wages will make society richer (although, just as with aerobic exercise, it might hurt at first ... no pain, no gain!).

Never 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 recognize the often conflicting interests at stake in the economy, is a society in which more people will feel confident deciding for themselves what's best – instead of trusting the experts. It will be a more democratic society.

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 the *only* 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. They claim, incredibly, that the economy would be

Whose Economics?



I once attended a dinner speech given by the Secretary-General of the Organization for Economic Cooperation and Development (OECD) (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. These 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 to me more like brainwashing than education.

During the question period, I took issue with the OECD chief’s assertion that the French do not understand economics. Compare France to the US – usually held up as the prototype of an efficient, flexible, market-driven system. On average, French workers work 300 hours per year fewer than Americans (that’s seven extra weeks off per year). Yet they produce just as much value added with each hour of labour as Americans. Unemployment is higher in France – yet most unemployed French receive more income (from social benefits) than millions of *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 either that they were already in the wealthiest 1 percent of society, or else believed that they soon would be there.* The mathematical impossibility of this bizarre worldview 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), p. 179.

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 possesses abundant wealth to 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, 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 directly by our desire to improve the human condition, rather than

by a hunger for private profit. (Exactly what that alternative system would look like, however, is not at all clear today.) We'll consider these criticisms of capitalism, and alternative visions, in the last chapters of this book.

But quite apart from whether you think capitalism is good or bad, 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 well-being they'll be able to extract from it.

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 ever-lasting, and the related claim that economics is the neutral, technical study of that natural, ever-lasting 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 Three 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; and the relationship between the economy and the natural environment.
4. **The Complexity 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 Four. 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 Two of the book now becomes a lot bigger and more complex.
5. **Challenging Capitalism** Once 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, to more effectively meet human needs and protect the natural environment. And it starts to imagine completely different ways of organizing the economy in the future.

Building an economic “map”

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

To portray these increasingly complex relationships, we provide a series of eight economic “road maps,” illustrated by Tony Biddle. The maps use simple visual icons to identify the major players, and connect the dots between them. By the time we’ve explained our “big circle” at the conclusion of Part Four, this map will be a very handy tool for

finding your way around capitalism. Like any map, it will help you locate where you are – and figure out where you want to go.

The Economics for Everyone website


The overarching goal of this book is to make economics accessible and even entertaining for non-specialist readers. 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 prerequisites. (We also encourage instructors to supplement these materials with local information and resources.)
- **Glossary** Every term in this book that is highlighted in SMALL CAPITALS is defined in an on-line glossary that can be accessed from the website.
- **Background statistics** To keep the book as readable as possible, we have avoided using too many charts, graphs, and tables. For specific topics on which additional background statistics (from a selection of countries) may be interesting to readers, they

are provided on the website. Wherever this calculator symbol appears –  – the website includes simple statistics (cross-referenced to the relevant chapter of the book) that help to illustrate the point being made.

- **“How-to” guides** The website includes short guides to help readers locate and interpret key economic data and statistics, such as GDP statistics and corporate financial reports.
- **Other supplementary materials** The website also provides 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 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.

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 author@economicsforeveryone.com. Within the constraints of my paying job (as economist for the Canadian Auto Workers), I will endeavour to respond to every query.

If there’s a simple, overarching theme running through this book, it’s the idea that people have to fight for whatever they get from the economy. Nothing comes automatically, via the magical workings of supply and demand. Rather, it comes to them through motivation, organizational strength, political influence, and power. Knowing this basic fact of economic life, and identifying where and how to fight for a fairer share of the pie, will allow you and your fellow unionists, activists, and neighbours to make the most of economics.

In this sense, it really is up to you: to take your grass-roots knowledge of the economy, and translate it into economic action, and economic change.

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 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.

Part One

Preliminaries

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 the monotonous “market updates” that interrupt most 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.”

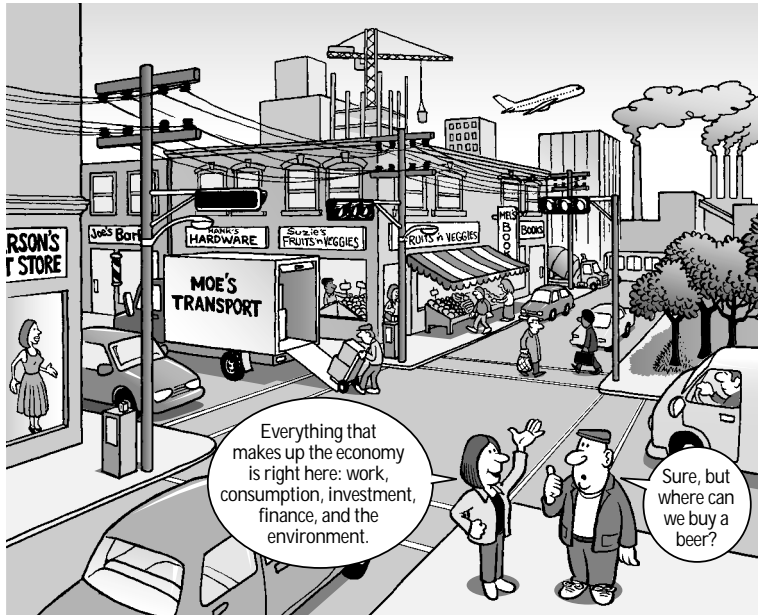
But is all that financial hyperactivity really what the economy is about? Is economics really so complex and unintelligible? Should we trust the “experts” with it all? Maybe we should find out what's going on for ourselves.

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? Who performs which chores inside the household? 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? 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 facilities compare with the private homes and businesses around them? Are they newer, or older? Nicer, or shabbier? Is there a park in your neighbourhood? Is there anywhere else a person can go without having to pay money?

Are the streets clean? If so, who cleaned them? Is the air fresh or smoggy? Are there any parks in your neighbourhood? 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 within 100 miles of your home? Elsewhere in your country? In another country? Can your neighbours afford most of what is on display? Are they usually happy with their purchases, or disappointed? Do they pay with cash, bank cards, or credit cards? Can they afford what they buy?

Now walk to a local bank branch and see what's happening inside. Compare what you see (deposits, withdrawals, 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 passes; 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? 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.

Have any new workplaces opened up recently in your neighbourhood? If so, what do they do? 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). But just by walking around your neighbourhood, 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? How much do they get paid? Is it hard to find a job?

- **Consumption** What do people need to stay alive? What do they want, to make their lives better? How do they pay for it all?
- **Investment** Private companies and public agencies must invest in maintaining and expanding their facilities and workplaces, or else the economy (and your neighbourhood) goes quickly downhill. Who is investing? How much? On what types of projects?
- **Finance** Most economic activity (but not all) requires money. Who creates and controls that money? 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. Is the natural environment being run down by the economy, or is it being sustained?

These are the building blocks from which the most complicated economic theories are constructed: work, consumption, investment, finance, and the environment. And they are all visible, right there in your neighbourhood.

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 means 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).

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, and 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 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. 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 school – without directly paying anything. Importantly, some of what we produce must be re-invested, in order to spark even 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 biologists and anthropologists alike).

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).

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. 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.

The economy is about work: organizing it, doing it, and dividing up its products. And at work, one way or another, we interact 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 our 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 our history, our current social reality, and our future evolution as a species, when we understand more about economics.

What is economics?

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 is the study of human economic behaviour: the production and distribution of the goods and services we need and want.

This broad field 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 this mindset, was defined by one of its leading practitioners (Lord Lionel Robbins) back in 1932, in a definition that is still taught in economics courses today:

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



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