

The Domain of Economics

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There are numerous definitions of economics. Most of those written by economists emphasise their own interpretations of the subject; dictionary definitions, being impartial, are generally better. Here is a good one: 'The social science that deals with the production, distribution, and consumption of goods and services and with the theory and management of economies or economic systems' (American Heritage Dictionary).

The academic discipline of economics has always concentrated on just one part of that field: production, distribution and exchange on private markets, as mediated by the price system. Most 'schools' of economics and much of the basic theory are predicated on the notion that market mechanisms are the only true basis of an economy, implying that other processes are either aberrations or second-best solutions. This is written into some economists' very definitions of their discipline. Over the last 30 years, with the profession dominated by the 'neo-classical' school, this way of thinking has been stronger than ever.

That not only lacks objectivity but gives an incomplete picture of economic processes themselves - as they are in the modern world, as they have been in the past and as they might become. Any impartial study of economics would encompass *all* the known ways of organising production, distribution, employment and exchange, without giving a privileged position to any one mode. Three main modes can be identified:

1. **Hierarchical planning**, as in the central planning of the former Soviet system and within commercial companies under capitalism;
2. **Mutual decision** between people, working through autonomous democratic processes in organisations such as cooperative shops, credit unions, mutual banks and building societies. There has been little theoretical or empirical investigation into this mode as it works in practice, even among socialist economists.
3. Private barter or monetary **exchange**, taking place on the market without explicit direction from a governing state or a democratic procedure. This is the conventional field of analysis of economics.

These are ideal types, more than one of which may co-exist in a given field of activity. For example, in the public sector the first two modes will generally both apply when the state is democratic.

However, the conventional form of analysis easily becomes teleological - presenting private ownership and markets as objectives to be achieved rather than impartially describing and analysing the various modes, each of which has its own uses, merits and demerits. Even the names of basic economic concepts are strongly value-laden and surely unscientific. An example is the fundamental concept of the 'perfect market', and the associated fantasy world of 'perfect competition' and 'general equilibrium'. At its strongest, exponents of this way of thinking present the workings of the market as immutable laws to which all societies should submit by removing the 'interference' of politics and 'regulation' from the 'freedom' of private exchange. That is a very partial way of looking at the relationship between politics and the market. A believer in democracy might with equal vigour demand that financial markets must not 'intervene' in *political* processes, as they routinely do.

Economics has to be re-established on an objective basis. It should arise from economic phenomena as they are, not be deduced from *a priori* ideas of first principles. It is indeed curious that English-speaking countries, proud of their empirical and pragmatic traditions, should have imposed on the world a form of economics which has such shallow empirical roots and is so strongly ideological. Mainstream theory is wide and diverse, and contains many elements of unquestionable value. These must not be lost. But they need to be attached to more realistic, less value-laden and more pluralistic basic explanations. To achieve this, a long process of reappraisal is required, based on inductive reasoning which starts with observations, not theorems. All terminology which points in the direction of particular conclusions needs above all to be removed.

Recommended reading:

D. Dowd, *Capitalism and Economics: A critical history* (London and Ann Arbor, Pluto Press, 2nd edition, 2004). This book relates how economics has evolved in tandem with capitalism, and provides a necessary antidote to all pretensions to scientific precision and impartiality. One section is called, 'Is the United States building a debt bomb?': so much for the idea that the 2008 crash came as a bolt from the blue!