

# Economics as if people mattered

Andrea Westall

*Andrea Westall suggests alternative ways of thinking about economics.*

Following an election focused more on single issues and delivery than values and passion, there is a need to recreate a politics of the left based on a strong narrative that both inspires and provides the basis or framework for action. Core to this challenge is the development of a political economy and economic policies that are able to deliver on a clear vision of society and the good life, harnessed to meet people's and society's needs, and within environmental constraints. That is easy to say but there is surprisingly little current debate on this issue.

Writers on the left attack New Labour for not having a coherent values-based economic policy, and for being too uncritical of the role of business and markets in delivering on (or preventing the delivery of) core left objectives. The third way was obviously an attempt to try to set out a coherent vision for a revived social democracy set within the perceived 'limits' of globalisation on national decision-making and control, and the problems of centralised delivery. Many commentators have noted its weak analysis and acceptance of the benign nature of modern capitalism, particularly global capital flows, and therefore its inability to deal with their consequences.

This article is not going to attempt to define a new political economy; its aim, rather, is to explore alternative economic traditions and thinkers who are only occasionally picked up by the left. These different perspectives see economic activity as encompassing much more than traditional areas such as

paid work, or investment in capital, and focus primarily on how the good life can be delivered through wider, or different, concepts of wealth, work, money or capital. They also challenge us to create new ways to get back in control of the economic system at all levels from local to global and, by offering different understandings of how economies work in practice, potentially suggest new and more effective ways to do so.

New Labour has an economic policy but it does not have a political economy. Its economic policy has been remarkably effective in creating stability, keeping inflation low, and underpinning high employment. It sees economic growth - pursued chiefly through promoting entrepreneurship, innovation and productivity - as central to increasing quality of life and opportunity, providing jobs, supporting the provision of quality public services, and (but rather quietly) enabling the redistribution of income to tackle poverty. Concern over future pension provision and threats to UK competitiveness from overseas producers ensures that this approach is hard to challenge, since to do so could be to risk competitiveness and growth, leading to unemployment and reduced tax take.

**B**ut there are clearly problems that are not being answered, and cannot be answered, by the narrow focus on economic growth and productivity. Inequality remains high, both within the UK and internationally. Poverty persists, yet there are cries for work-life balance that reflect overwork - in a society that once expected that economic growth would bring more leisure time and a secure retirement. Crude measures of progress such as GDP are not correlated with measures of wellbeing (which remains static): this is partly a reflection of the way in which economic growth creates 'bads' as well as goods for individuals, communities and the environment. Climate change is a particular problem for current economic policy frameworks; they are an inappropriate means for addressing the scale and fundamental nature of the issues involved. And when mainstream economists such as Joseph Stiglitz start to argue that the global economy is becoming potentially more unstable, or strongly question the positive impacts of free trade, it's clearly time for a rethink.

Other commentators, including many in *Soundings*, point to the erosion in public values and public goods brought about by creeping marketisation, and the reduction in time and inclination for civic activity that results from individualisation and overwork. And, despite some efforts towards joined-up government, our fragmented approach to policy-making - focusing on separate

issues such as housing, transport, productivity, climate change - fails to deal with conflicting targets and the complex interactions between social, economic and environmental issues. Economic thinking and practice seems to remain resolutely separate from social and environmental policy, making it impossible to explore in more than a tokenistic way the inevitable synergies, interconnections and trade-offs that a more integrated approach would bring.

Part of the reason we are in this situation is the dominance of neoclassical economic thinking and influence over practice. That hold has become embedded not only in our politicians and policy-makers but within media, general culture and conversation. Edward Fullbrook, in his article on Post-Autistic Economics in *Soundings* 29, set out the problems of an approach focused on an inappropriate view of human nature, an incorrect analysis of the dynamics of firms or markets, and an inability to cope with environmental constraints. Another aspect of the problem is that elements of economic activity, such as capital flows and credit creation, have become increasingly divorced from any form of public control.

Any approach to political economy has to deal with and understand a highly complex reality. Anti-globalisation movements have successfully raised issues that many politicians would rather avoid; but, equally, the tendency of some to focus on tangible 'evil' targets misses the point that we are dealing with a dynamic system of incentives and interactions (many of which make sense in isolation - though of course certain institutions, such as the IMF, are underpinned by a narrow neoclassical approach to economics that doesn't actually make sense). Faced with all this, the choices are either to jump in and try to deal with it all; to continue to offer piecemeal approaches; or to bow down to the inevitability of current economic forces - as with Dostoevsky, in *Notes from the Underground*, you can

... sink voluptuously into inertia, silently and impotently gnashing your teeth and reflecting that there isn't even anybody for you to be angry with, that an object for your anger can't even be found, and perhaps never will be ... and consequently there remains only the same outcome, which is banging one's head as hard as one can against the stone wall.

But rather than giving in, we need to look at alternative approaches to

economics, which can help in opening up new ways to look at existing problems, particularly since some adopt values which resonate with a left perspective. Ecological economics, for example, focuses not only on environmental constraints but also on values such as social justice, wellbeing and more participative democratic processes. The left has up until now avoided integrating an analysis of the environment with issues of social justice and equality, but this evasion cannot continue.

The problem is, however, that these analyses tend to stop short of practical policy solutions or a coherent political economy. So as a way of framing these discussions and providing inspiration for a new sense of purpose, we can also look to a range of thinkers who have often been bypassed - from co-operative socialist or liberal or even green backgrounds. We desperately need, as Schumacher (one of the core inspirations for the new economics foundation) has argued, an economics 'as if people mattered'.

### **Looking back and outwards for inspiration**

Karl Polanyi, an Austrian economic historian, is a useful starting point for breaking out of our usual ways of thinking about economics and our current model of capitalism (see, for example, his *The Great Transformation, The Political and Economic Origins of Our Time*, first published in 1944). His discussion of economic systems goes far beyond a focus on markets, or on the pros and cons of capitalism, or the relative balance of market or state-led production and delivery. He sees economic activity as based on three economic principles: market-based exchange, redistribution and reciprocity. This thicker understanding of economic activity enables us to think more widely about the importance of productive work that is unpaid, such as care, or the informal distribution and mutual aid between people that is in effect the bedrock of society. Economic measures of growth and progress such as GDP do not include the outcomes of productive individual and community activity which is unpaid, thus implicitly undermining and devaluing activity which may be core to creating wellbeing and social justice.

Polanyi also breaks us out of the trap of inevitability, by pointing out that the dominance of market-based transactions is only recent: it was the 'great transformation' of the Industrial Revolution that began the process of

weakening a more moral economy based on need. He reminds us that economic activity is never free-floating and uncontrollable but is always embedded in society.

But economic and market control need not mean control by central government. Apart from the centralised Marxist or Fabian models of socialism, other traditions of co-operative socialism, along with parts of liberal and green thought, suggest other ways of understanding and managing economic production, ownership and distribution. At the heart of this analysis is the idea that economic activity should be empowering, values-based, and subject to broader and decentralised democratic control, implying new governance and organisational models. The revived interest in mutualism draws on this strand of economic and political organisation.

**J**ohn Stuart Mill, a liberal, argued for a co-operative capitalism, in a fairly similar way to socialists such as Ruskin, who set out a vision of a co-operative socialism where much of industry would be run on a mutual basis. Ruskin also focused on the human experience of economic activity and how this related to the good life. He argued that there is 'no wealth but life' and that economic activity has become an end in itself not a means, impoverishing society and individuals in the process. His words in *Unto this Last*, published in 1862, still make sense:

A nation cannot last as a money-making mob: it cannot with impunity, it cannot with existence - go on despising literature, despising nature, despising science, despising art, despising compassion and concentrating its soul on Pence.

Ruskin believed that work should support and enhance life. In other words, the focus should not be entirely on the quantity of work (even in its broadest sense) but also on its quality.

It is interesting that when Ivan Illich, a maverick Austrian writer and thinker, argued in the 1970s that our economic system and model of top-down government and education denies personal empowerment, confidence and skill, he was criticised by the left. He argued that consumption creates passivity and that more emphasis should be put on supporting the retention of diverse human cultures, and supporting local self-reliant local economies which encompass

more shared activity. He saw consumer society as 'serfdom' and challenged people to choose:

a life of action over a life of consumption, which will enable us to be spontaneous, independent, yet related to each other, rather than maintaining a lifestyle which only allows to make and unmake, produce and consume - a style of life which is merely a way station on the road to the depletion and pollution of the environment.

He suggested new institutions and processes which he called 'tools for conviviality'.<sup>1</sup> These included skills exchanges, models of decentralised learning, and ways of creating health outside medical intervention – ideas which prefigured current debates around lifelong learning, and the idea of healthy communities where citizens help to create their own health. This recognition of the need to create a strong collective public realm, linked to and creating thriving local economies, needs greater attention from the left.

**T**his analysis, alongside ideas from Buddhism and Ghandi, led E. F. Schumacher to try to create economic theory and practice at a scale which did not impoverish people or community wellbeing, and was not environmentally unsustainable.<sup>2</sup> Schumacher was behind the concept of intermediate technology, proposing productive technologies which were cheap, suitable for small-scale application, and 'compatible with man's need for creativity'. People could be freed from paid labour and dependency, becoming their own employers, or members of co-operatives working for local production; this would create a 'progressive decentralisation of population, of political and economic power', as well as more satisfying lives, where the aim was the maximum of welfare with the minimum of consumption.

If your inclination is to dismiss this kind of vision as utopian and impractical, stop and think of the trends towards people working for themselves or downshifting (at least for the affluent), as well as concern over the loss of core local services. There has been a great deal of support from a diverse range of

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1. The core ideas can be found in E. F. Schumacher's *Small is Beautiful: A study of economics as if people mattered*.
  2. M. Max-Neef, *Human Scale Development*, 1987.

people for the new economic foundation's (nef) work on 'ghost town' and 'clone town' Britain, which highlights the loss of local services and dominance by powerful monopolistic retailers, and for proposals by others for collective land ownership in order to provide the underpinning for greater community control over local economic services, housing and public space. Such ideas clearly resonate with a widespread concern over the direction of our society, and about the loss of control over our ability to meet basic needs and generate some level of personal and collective security.

**E**conomic policy and thinking should pause and think about the impact of scale. For example, the current obsession with the large scale in procurement by the public sector misses the potentially positive impacts of more local and smaller-scale delivery on struggling local economies, as well as their more positive environmental impacts. The pursuit of scale derives from a focus on narrowly conceived and measured concepts of competitiveness and productivity.

Much of this thinking is underpinned by a concept of needs that goes beyond the Maslow hierarchy where subsistence comes first. Max-Neef, renowned for his 'barefoot economics' and human-scale development, proposed nine fundamental needs: subsistence, protection, affection, understanding, participation, creation, recreation, identity and freedom; these can be satisfied through being, having, doing and interacting.<sup>3</sup> This thinking underpins Hetan Shah's analysis, in this issue of *Soundings*, of the potential in taking wellbeing as central to the good life and to the goals of policy-making. It also creates a framework which enables us to consider whether different kinds of economic activity or economic policy may or may not satisfy these needs.

Drawing on this broad canvas, thinkers like James Robertson have tried to create a coherent framework for thinking differently about economics. Robertson argues for a SHE economy - sane, humane and ecological - based on a number of principles, including:

- ◆ Systematic empowerment of people and communities to take control of their own futures and be more economically self-reliant (particularly in order to create built-in buffering - but not isolation - from external economic conditions)

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3. A good summary of James Robertson's views and ideas can be found in J. Robertson, *Transforming Economic Life: A Millennial Challenge*, Schumacher Briefings (1) 1998.

- ◆ Conservation of resources and the environment
- ◆ Evolution to a 'decentralised multi-level one-world economic system' rather than one based on nation states
- ◆ Restoration of political and ethical choice into economic thought and practice.<sup>4</sup>

Robertson, like many similar thinkers, is not anti-market, but he argues that economic institutions and prices need to appropriately incentivise the 'right' behaviour. His core argument is that the self-reinforcing cycle of consumption growth, production growth and money growth needs to be broken, based as it is on an employer-centred and producer-led economy rather than a people-centred or citizen-centred model.

He adopts a systemic analysis that recognises the need for a framework of reinforcing incentives and institutions rather than just isolated solutions. These would include, for example:

- ◆ Introducing a citizens' income, increasing with age, which would replace tax benefits and welfare in order to recognise the equal entitlement of all to resources, to support unpaid work and civic activity, and to reduce poverty traps.
- ◆ Restructuring the tax system (at all levels from local to global) away from productive activity and towards bads (environmental resource use) and unproductive assets (for example, land). Part of this thinking is based on Henry George (who inspired Georgist economics), who argued that, since no productive effort has gone into creating land, it should not be owned, and that those that do own it should be charged rent. This rent or tax would reduce speculative activity, and would ensure that all gains from public activity or individual effort in adding value to land would go back to the public rather than into the pockets of the landowners. (Driven by a need for new sources of taxation, this idea of taxing unearned wealth from land has recently become a focus of interest - for example in the case of transport developments in London.)

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4. For a sweeping and fascinating view of these developments, see A. Evers and J-L. Laville, *The Third Sector in Europe*, 2004.



- ◆ Developing more self-reliant economies, which reduce the need to travel and are not totally dependent on paid economic activity.
- ◆ Developing new indicators to measure a more realistic and humane form of progress.
- ◆ Public purchasing policies which incentivise equitable and sustainable practice.
- ◆ Education not just for work but also to support life as an active citizen.
- ◆ A new and powerful system of international governance to address the complex challenges of, for example, trade, and its impacts on international development, local economic viability, and environmental sustainability.

A core issue for Robertson, which can only be sketched out here, is that of rethinking the money system. He argues that the requirement for interest payments fuels unsustainable growth, reinforced by the unregulated way in which banks can issue new money. He also argues that a single currency can severely affect different parts of an economy, and therefore advocates multiple currencies to create more stability, and to keep and develop purchasing power within local economies. He argues that a global currency would also be desirable, in order to remove the perverse hold of the dollar on the world economy, which, in effect, enables the US to continue to consume beyond its means, further fuelling unsustainable growth and instability. These ideas create another perspective on a single European currency, and the idea that any regional economic variations can *just* be dealt with through a redistribution of resources.

**A** central theme running through many approaches is that of promoting more economic democracy through institutional transformation. Whilst this is often presumed to apply only to business activity, it is also relevant more broadly. In particular, there is a role for the third sector here. In the UK, like the US, the third sector has tended to be seen as a means for responding to government or market failure, rather than as an alternative or complementary source of economic activity. The European concept of social economy is more capable of capturing this role. Recently there have been increasing numbers of hybrid organisational models: multi-stakeholder social enterprises that involve market activity, voluntary commitment, and mutual production and decision-making, and create collective wealth while delivering

trust-based services. These organisations engage a range of different stakeholders in complex governance and decision-making models (sometimes including the state) and could be seen as new spaces for power, democracy and resource allocation.<sup>5</sup> We could very profitably look at the implications here, not only for a strong social economy to underpin jobs and communities, but for lessons on wider institutional and business reform. These practical innovations also draw on veins of thinking (for example in France) around a more civic or solidarity based economy.

### **Taking a different view of economics**

In *Soundings 29* Edward Fullbrook offered an account of the ways in which alternative or heterodox economics have been sidelined by the power of ‘mainstream’ neoclassical economics. He also noted how this dominant thinking affects policy-making, for example by preventing recognition of people’s complex and ethical decision-making processes, or of the challenges and implications of sustainable development.

The ICAPE website (International Confederation of Associations of Pluralism in Economics) lists many sources for different ‘economics’, including institutional, feminist, social, ecological, evolutionary, Georgist, post-keynesian or behavioural (see [www.econ.tcu.edu/econ/icare/main.html](http://www.econ.tcu.edu/econ/icare/main.html)). Each has its own scope, but as the Post-Autistic Economics (PAE) movement emphasises, the aim should be for pluralism. So what have heterodox or alternative economics to contribute to a left political economy or policy-making?

**B**ehavioural economics enables us to challenge some of the assumptions guiding current policy-making that prevent radically different approaches, for example the argument for marketisation on the grounds that non-market mechanisms are not ‘efficient’. Thus behavioural economics points to the unsurprising evidence that people can make decisions that are not self-seeking but are in fact fair. Equally, there is evidence that monetary rewards are not always motivating: for instance, paying volunteers can reduce their willingness to engage. This kind of research proves that people do respond

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5. For further practical implications of behavioural economics, see *Behavioural Economics: The 7 principles of human behaviour for policymakers*, available from [www.neweconomics.org](http://www.neweconomics.org).

to motivations other than simple self-interest, and underpins broader views of economic activity that incorporate reciprocity or altruism. Another example of the difficulties inherent in relying on purely monetary incentives to promote effective outcomes can be seen in the problems that have arisen in attempting to motivate all teachers through performance-related pay.<sup>6</sup>

Institutional economics recognises the importance of social norms and institutions in framing economic outcomes and decision-making. This suggests that alternative systems of reinforcing laws, institutions and social norms could be designed, for example systems that can support and encourage equitable and environmental economic activity. One useful outcome of this approach would be to prove once and for all that organisational models other than shareholder companies can be effective in achieving societal goals, given the correct set of incentive and governance structures. It can also demonstrate that introducing competition does not always guarantee enhanced outcomes for end users. For example, limited thinking about competition led to the fallacious assumption that the opening up of directory enquiries would inevitably result in cheaper prices and better services for choice-loving consumers.

**E**volutionary economics recognises that economies and markets are not static; they develop over time and do not tend towards some equilibrium level, as is assumed in the self-organising principle of neoclassical economics. Rather, because they are a function of different actors (for example, individuals, firms, civil society associations, sectors, states) as well as norms and rules, they create outcomes that cannot easily be predicted. The dynamics of the system come from connections and interactions between actors. With the increasing understanding of the nature of complexity and the development of soft systems approaches adapted to complex social reality, this kind of analysis has become more sophisticated. Various rule-based modelling approaches, such as agent and multi-agent based modelling, are being used to investigate the evolution of economies and the impacts of policy interventions.

These insights reinforce and explain the reasons why an economics of command and control cannot work in many circumstances. Jake Chapman's

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6. See J. Chapman, *System Failure: Why governments must learn to think differently*, Second Edition, Demos 2004.

brilliantly accessible analysis of systems thinking applied to policy-making illustrates the implications: chiefly that the search for a single solution is often not possible and needs to be replaced by creating appropriate processes and learning systems that can be framed with values and objectives.<sup>7</sup>

Ecological economics has perhaps the most to say to a left approach to economics, seeking to combine a focus on wellbeing, environmental sustainability and justice within a common framework. Core to the foundations of ecological economics is a focus on people, and their needs over time, but within the confines of the limits of environmental resources and the 'carrying capacity' of the biosphere to cope with waste products. Capital is seen as a broader concept, encompassing financial, human, environmental and social. Ecological economists argue that sustainable development is a more appropriate concept than economic growth, since it focuses more on the goals of economic activity (rather than growth per se), as well as on social and intergenerational equity.

**H**erman Daly, a highly influential and accessible ecological economist, has set out certain core principles of ecological economics, such as the need to recognise the appropriate scale of an economy relative to the ecosystem, and the need for equitable distribution of resources and income; these require complex property rights from the individual to collective and global.<sup>8</sup> He advocates the concept of the steady-state economy, which focuses not on maximising consumption but on minimising 'throughput' - resources and generation of wastes. He is not anti-market, arguing only that resource use should be controlled, not that innovation and entrepreneurship cannot happen within those constraints.

Robert Constanza, writing in the same book, argues that the way to integrate the three goals of ecological sustainability, social fairness and economic efficiency, and to determine their relative value, is to 'get on with the process of value formation and analysis in as participatory and democratic a way as possible, but one which also takes advantage of the full range and depth of scientific information we have accumulated'. A core challenge is that of creating

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7. See, for example, his essay in Edward Fullbrook's edited collection, *A Guide to What's Wrong with Economics*, Anthem Press 2004.

8. See for example the wealth of thought in R. Krishnan, J. Harris and N. Goodwin, *A Survey of Ecological Economics* 1995.

analytical tools that allow a more pluralistic model of decision-making and policy design, based on comparing the different values of aspects of a situation, going beyond the purely financial. Cost-benefit analysis (CBA), the usual way of deciding on policy, reduces everything to a monetary equivalent that can be compared. Alternative approaches to such methods include multi-criteria decision analysis, which enables broader notions of value and more participatory decision-making.

This and other new techniques provide some interesting ways through some of the main challenges in balancing economic, social and environmental issues.<sup>8</sup> Other proposals include new measures of progress that account for what is called 'uneconomic' growth, i.e. growth which involves environmental or social costs (such as the costs of dealing with pollution or resource depletion, or the costs of income inequality). One example is the MDP (Measure of Domestic Progress) developed by Tim Jackson for nef, which is currently being considered regionally; the east midlands development agency (emda) is presently conducting a feasibility study (see [www.neweconomics.org](http://www.neweconomics.org)). This approach can be supplemented by satellite accounts in sectors that enable a more targeted development of appropriate incentive frameworks (for example, they are used in Norway for energy, and land use).

Another example is HEEDnet, a group of heterodox economists involved in ecological, behavioural and institutional economics, focused on designing effective policies to deal with environmental issues (see [www.heednet.org](http://www.heednet.org)). They look at questions such as the ways in which changes in consumer behaviour relate to norms, or public good arguments, or others' behaviour, and explore how understanding such relationships could inform the creation of social institutions that could contribute to public goods, or reinforce positive behaviour.

There is a long way to go in developing these concepts. Other critical resources that are urgently needed include an international trade theory that recognises equity and environmental issues; new theory and practice for the firm; and new understandings of ways of creating the appropriate frameworks for markets.

## **Moving forwards**

The new economics foundation arose out of The Other Economics Summit (TOES) held in 1984. nef's first chair, George McRobie, summarised some

of the implications of another way of looking at economics, work, and life as follows:

The answers to emerge will entail new ways of organising work and meeting human needs, and of guaranteeing incomes; a new emphasis on economic self-reliance, including local economic regeneration and enrichment of poor countries through self-reliant development strategies rather than increasing third world dependence; new awareness of ecological constraints, of human needs for survival, social justice and self-fulfilment, and new economic concepts to take these into account; new growth areas for economic activity in energy-efficient and resource-conserving industries and in care and maintenance of the built and natural environment.

One of the main messages of this summary for the left is that much of this analysis echoes a more co-operative socialism, which can be uncomfortable for those used to a more centralised model. But this political space is increasingly attracting people ; and it offers the scope for a vision for the left which can argue effectively for appropriate methods of control over economic activity, but is at the same time socially liberal and pluralistic in its vision of more empowered and self-reliant people, communities and economies.

**A**lternative economics stresses the need for strong economic frameworks and incentives that recognise environmental resource impacts alongside social justice, particularly at the global level. But the key challenge, of course, is an understanding of how change can happen in ways which resonate widely enough, and do not raise (or can deal with) the fear of creating economic instability. Ecological economics is beginning to show how we could do this, but it needs much greater practical development. As a result we will have to rethink our core values as well as some core issues and concepts - such as the nature of property rights and 'work', our tax and finance system, our model and frameworks for growth and trade, and the design of international, national and local governance.

There is a huge amount of work to be done. I can feel that headache coming on again, and the pull of Dostoevsky, but for now I'm willing to have a go.