

# Foreword

**Martin Wolf**

What is economics? It is the study of the economy. What then is the economy? It is how we humans “*earn our living*” – how we organise ourselves to wrest the means of individual and collective survival from the world in which we live.

As is true of all other living beings, humans must obtain the resources needed to survive from their environment. Most animals, even other primates, have relatively simple repertoires for finding and taking these resources. This is true even of the social insects, despite the complex division of labour within their nests and hives. Human activities are different in scale and kind. This is because human beings are intensely social *and* individually highly intelligent and adaptable. The complex human economy of today is the result. Moreover, since the human economy is entirely embedded in the natural and social worlds, economics needs to understand the natural and social contexts.

The classical economists did indeed attempt to do this, to the extent that this was possible in the 18th and early 19th centuries. Thinkers like Adam Smith, Thomas Malthus, David Ricardo, and Karl Marx were indeed interested in human motivation, resources, institutions, social classes, and political power. Yet such a wide canvas created problems for a discipline that wished to achieve a high academic status: it was felt to be inadequately scientific. In response, economics adopted the intellectual strategy that had worked so well for the physical sciences: reductionism. Thus, it assumed away many complexities: for it, humans were selfish, rational, and far-sighted, resources abundant, information perfect, externalities insignificant, monopoly irrelevant, interpersonal comparisons of welfare impossible, money neutral and financial markets efficient. Orthodox economics assumed away the complications created by unpriced assets, economies of scale, costs of innovation, uncertainty, stupidity, and the operations of human institutions and social values. It also assumed human beings away, putting robots in their place.

The advantage of this intellectual strategy is that it made it possible to analyse the economy as a simple equilibrium system. The disadvantage is that the assumptions are false. As the education of economists tended to become narrower and more mathematical, the nature and extent of the errors became even less apparent. The inadequacy of economics has also affected the operation of the economy itself. Arguably, it has always done so. This is, after all, the most important way in which a social science is

different from a natural one. If we fail to understand the workings of the universe, it will function, though some of the machines that we humans invent may not. If we fail to understand the economy, it may not function well at all, because we in our ignorance will damage it.

A good recent example is the global financial crisis, the biggest purely economic shock of the last few decades. As Adair Turner, the influential British economist, has argued, in the early 2000s, economics came to underpin a “political ideology”, namely, “*free market capitalism: the intellectual underpinning was the concept of market completion – the idea that the more market contracts could exist and the more freely, fairly and transparently they could be struck, the closer we could get to the most efficient possible outcome, most favourable to human welfare*” (2010, p. 2). This idea was, to put it mildly, a mistake.

We must not exaggerate the failures of either the economy or of economics. In the broad, the economy has done its job almost miraculously well. By co-operating, human beings could indeed support themselves and their families vastly better than they could have done on their own. Even our hunter-gatherer ancestors were able to combine their efforts (by co-operating in hunting, foraging, and bringing up children), insure themselves (by sharing food), diversify their skills (by specialising), exploit differences in knowledge (by exploring different terrain or foodstuffs on their own or in groups), broaden markets (by trading) and communicate with one another (by talking). Humans massively outcompeted other animals that were individually far stronger and faster than they were.

Humans became masters of the planet. The agricultural revolution was a huge jump. But the industrial revolution was a bigger and, above all, far quicker one. The combination of scientific and technological advance with competition and supportive political and social institutions has created a system of staggering complexity and scale. Today, the human economy supports close to 8bn people, almost all of whom live longer and more prosperous lives than those of the great majority of the mere 1bn people alive two hundred years ago. The inventiveness is no less unbelievable: estimates indicate that today the world economy produces some 10bn different goods and services (Beinhocker, 2006). Today, however, human beings and the livestock they rear for food make up 96 per cent of the mass of all the mammals on the planet (Wolf, 2021).

The human economy is, in sum, a success. But it is also a failure and even a danger: extinction rates are thought to be 100 to 1,000 times higher than their background rate over the past tens of millions of years. Thus, externalities have become far more binding, above all those created by the

global environment. Moreover, inequality is pervasive, within and across societies; the financial sector remains a source of instability; corporations are run for the benefit of narrow groups of insiders; monopoly seems to be a pervasive force; new technologies are upending social and political relationships; the media are spreading destructive lies; and the foundations of democracy are corroding.

Economics is itself part of the problem. This is partly because it leaves out so much that matters. It is also because what it assumes about humans is wrong. It does not merely assume “*homo economicus*”, but, some would argue, encourages people to become one: selfish, competitive, and antisocial. This is debated (Girardi et al., 2021). Yet it is at the least clear that if everybody did behave as a rational self-seeker, civilised society, which relies on the unverified or unverifiable trustworthiness of one’s fellows, would almost certainly collapse. *Homo economicus* really could not have created Denmark or any prosperous and highly co-operative society.

Economics is not only part of the problem, because of how it simplifies, but also because of what it leaves out. This is true even though it has developed in significant and helpful directions, to include imperfect competition, analyse asymmetric information, recognise endogenous growth, measure creative destruction, discuss multiple equilibria, distinguish happiness from income and analyse actual human behaviour. The discipline has indeed become more empirical and broader, while maintaining its core virtue of rigour. Yet even this is not enough. This book indicates how economics could become better still. It does so by reclaiming economics as the queen of social sciences, the subject that seeks to analyse *all* aspects of the most important thing humans do together, namely, co-operate, in order to deliver flourishing lives to as many people as possible.

If economics is to do this successfully it must embrace broader perspectives. It must be more aware of what it is trying to do and of the wider context in which the economy and economics operate. It must embrace breadth and complexity. The range of knowledge and abilities needed by economists is at the heart of the necessary transformation.

In a celebrated passage, John Maynard Keynes argued that “*the master economist must possess a rare combination of gifts. He must reach a high standard in several different directions and must combine talents not often found together.*”

*He must be mathematician, historian, statesman, philosopher – in some degree.*

*He must understand symbols and speak in words.*

*He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought.*

*He must study the present in the light of the past for the purposes of the future.*

*No part of man's nature or his institutions must lie entirely outside his regard.*

*He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician."*

(Keynes, 1924, p. 65)

How is such a paragon to be produced? This book offers a good part of the answer. It broadens the foundations of economics, by forcing economists to understand the history of the economy and the subject and so to be aware of what economics tries to do and how it attempts to do it. It proposes a practical route towards a better economic education. It provides a wide range of materials on how different schools approach the challenges and opportunities of studying the economy. It is, in sum, a distinguished effort to educate economists to become the sort of people Keynes thought they ought to be: broad intellectuals, not narrow technicians, but at the same time practical guides, not only abstract thinkers.

For many economists, the approach this book recommends will be painful. That is not just for selfish reasons. Those heroic simplifications had virtues. With them will go the old clarity about what economists are supposed to do and how they are supposed to think. Yet the gains from a richer understanding of what the human economy exists to do and how it does and should work will more than compensate.

Do I agree with everything in the book? Absolutely not. That surely is the point. A good book on the teaching and studying of economics should be challenging.

Read. Enjoy. Learn.