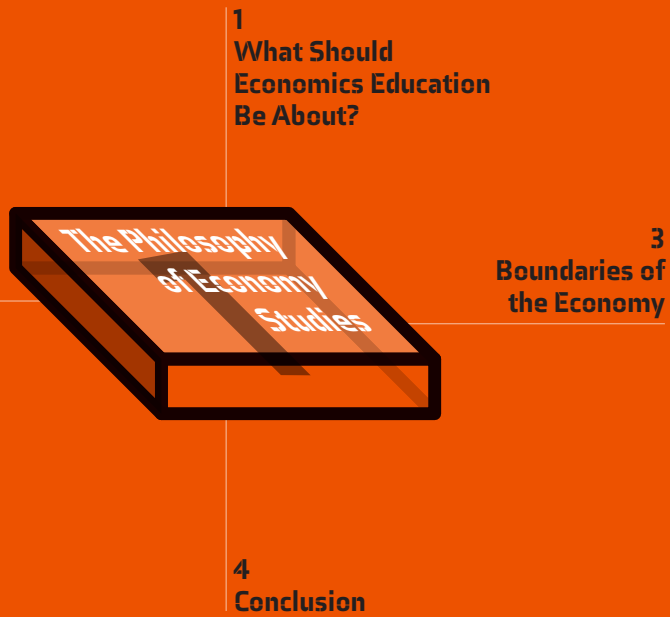


## Foundation 1

# The Philosophy of Economy Studies

Economics should be taught as the study of a subject matter, the economy, using all relevant approaches, rather than as a narrowly defined method of thinking.



In this chapter, we attempt to answer a fundamental question on economics education: should it be taught as a specific method of thought, which can be applied to any subject matter? Or, should it be taught as a study of a concrete subject matter: the economy, as lawyers study the legal system? We argue the latter, based on the idea that the study of the economy is a vital social function and the primary reason for most students to study economics.

In the second part of the chapter, we define what exactly we mean by ‘the economy’: economies are open systems of resource extraction, production, distribution, consumption and waste disposal through which societies provision themselves to sustain life and enhance its quality.

We then discuss the question of how the economy is related to other systems: When do we still call something a part of the economy and at what point have we crossed over into other territories? Here we discuss the economy’s relation to the natural world, to the social world and its geographical scope, and discuss how to work with these boundaries.

*“What do economists study? What do they do?  
They study the economic system.*

*Marshall, in the Principles of Economics defined economics thus: ‘Political Economy, or Economics, is a study of man’s actions in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing.’ A modern economist, Stigler, has phrased it differently: ‘Economics is the study of the operation of economic organizations, and economic organizations are social (and rarely individual) arrangements to deal with the production and distribution of economic goods and services.’*

*Both of these definitions of economics emphasize that economists study certain kinds of activity.”*

**Ronald Coase** (1978, p. 206)

# 1 What Should Economics Education Be About?

The theme of this book is: *how economics education should be organised, to best prepare students for their future roles in society*. In other words, what should economics education be about? There are broadly two potential answers to that question: organising education around a specific method of analysis or organising it around a subject, the economy (Akerlof, 2020).

What would the first answer imply? We would get separate programmes for different theoretical approaches, which subsequently could be applied to different subject matters including for example trade, the labour market, marriage, political party competition, religion, etc. One could imagine a separate programme for the neoclassical approach to human life, another for the institutional approach to human life, programmes for the Marxian approach, etc. Proponents of this view generally claim that while such an approach to the field is by definition limiting, these very limits form its power. Namely, a single, coherent and long-established intellectual framework has the advantage of being more practically useful. Students become experts in a particular method and can communicate effectively and consistently given their shared established syntax, as well as apply and build upon the works of others using the same toolkit.

In economics, this view has become more popular since the 1960s (Backhouse & Medema, 2009a). Before this period, the other view, seeing economics as the study of the economy as subject-matter, was dominant. In fact, the idea that economics is about studying economies has been around in many forms for as long as the field itself has existed (Backhouse & Medema, 2009b). In the classical period, Jean-Baptiste Say (1803, p. 6) described political economy as the “*science*” about “*the production, distribution, and consumption of wealth*”. Around the turn of the 20th century, the discipline changed its name from political economy to economics in order to sound more like a modern scientific discipline and to distance itself from its former political image. The core content of the field remained, however, largely unchanged.

In 1932, Lionel Robbins (1932, pp. 15-17) proposed a radically different definition of economics, defining it around a method, rather than a subject-matter, saying: “*Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses ... any kind of human behaviour falls within the scope of Economic Generalisations. ... There are no limitations on the subject-matter of Economic Science*”.

Initially, there was strong resistance to this new definition for economics as being about the rational choice approach to all of human life, or in Backhouse and Medema's (2009a, p. 805) words: *"This definition laid a foundation that could be seen as justifying both the narrowing of economic theory to the theory of constrained maximization or rational choice and economists' ventures into other social science fields. Though often presented as self-evidently correct, both the definition itself and the developments that it has been used to support were keenly contested"*.

Economists, such as Ronald Coase, Frank Knight, James Buchanan, and Kenneth Boulding, argued it was too deductive and anti-empirical, and at the same time too narrow in how topics could be studied and too broad in terms of which topics it concerns (Backhouse & Medema, 2009a). Knight (1933, p. 4) wrote, for example, that it is an 'error' and 'vice' to 'look upon life too exclusively under this aspect of scientific rationality [economising]' and argued instead that economics is about studying 'the social organization of economic activity'.

Despite these various criticisms, this definition and approach to economics has become more popular since the 1960s. Gary Becker was perhaps its most notable proponent, promoting this approach as 'the economic approach', which he described as follows: *"The combined assumptions of maximizing behavior, market equilibrium, and stable preferences, used relentlessly and unflinchingly, form the heart of the economic approach as I see it."* (Becker, 1976, p. 5). With this 'economic' approach, he proposed we can understand an enormous variety of topics, ranging from traditional economic topics, to topics including marriage, raising kids, education, politics, law, crime, discrimination, and even suicide, as being rational decision making amid scarcity (Becker, 1973, 1976, 2010; Fine & Milonakis, 2009; Grossbard, 1993; Kimenyi & Shughart, 1986).

But while this approach to economics has become more popular, it has by no means become universally accepted. Two of the most popular economics textbooks today, for example, define economics as the study of the economy as subject-matter: Krugman & Wells (2012, p. 12) write *"economics is the social science that studies the production, distribution, and consumption of goods and services"* and the CORE Team (2017, p. 38) defines economics as *"the study of how people interact with each other and with their natural surroundings in providing their livelihoods"*.

While the monistic approach, economics as a method, has some benefits, organising economics education along the lines of one approach creates the risk of replacing the mission with the instrument. The goal of academic programmes is to teach students to understand the world: theories and

methods are simply the means to achieve this end. Centring programmes around certain approaches tends to create intellectual silos, where students are taught to be like-minded and adhere to the approach taught in that programme. This approach is therefore often described as teaching students to “*think like an economist*” (Hoyt & McGoldrick, 2012; Siegfried et al., 1991; Tieleman et al., 2017). The danger in this approach is that it “*allows each professor to think of the training that they provide as essentially getting the student to think like him or herself*” (Colander & McGoldrick, 2010, p. 16). As such, the opportunity is lost to help students through open and critical discussions develop their ability to think independently and critically evaluate all the information they are exposed to (on a daily basis) both in their role as future economists and members of society. Or in the words of Raveaud (2009, p. 255):

*“While students need to be reassured that their professors know better than they do, they also like to be puzzled. They are students, after all, not guinea pigs! Our role as teachers is not to give them ready-made answers. It is to provide them with the tools and opportunities they need in order to learn to think for themselves about the relative value of competing economic ideas, institutions and policies in the face of genuine uncertainty about which one is ‘right’.”*

In this chapter, we argue for the second answer. That is, to teach economics centred on a specific subject matter: the economy. What would academic education look like in this case? Biologists investigate living things and the ecosystems they form. Sociology is the study of society and social relations. Medical doctors focus on the human body, its health and how to maintain and restore it. Legal scholars study the legal system, rights and obligations. Political scientists investigate politics, the dynamics of power and governance. Economists, then, study the economy. The title of this book, *Economy Studies*, serves to emphasise this point.

## 2 What is the Economy?

But what exactly is the economy? The term economy originally comes from the ancient Greek word *oikonomía*, meaning ‘*household management*’ (Samuels et al., 2008). The most common modern reformulation of the definition of the economy is the production, distribution and consumption of goods and services. In jargon, it is also known as the *social provisioning process*: the activities, interactions and structures that lead to the provision of the material means of life (Jo, 2016). Furthermore, recent developments and insights concerning ecological issues show that resource extraction and waste disposal are also crucial economic processes, besides production, distribution and consumption (Goodwin et al., 2019). As such, one could say economies are open systems of resource extraction, production,



distribution, consumption and waste disposal through which societies provision themselves to sustain life and enhance its quality.

To be clear – political science, sociology, anthropology, law, economics – these are all concerned with human beings and social processes. There is no separate entity called the ‘economy’, just as there is no isolated thing called ‘culture’ or ‘politics’. Social life is highly complex and consists of many dimensions. But in order to study it effectively, scholars have intellectually distinguished different domains of that larger social life. The social science disciplines each study one of those domains or aspects of society, and for economics that is the material provisioning aspect: the ‘economy’.

Before we move on, we need to explain further what we mean by ‘the economy’, by defining what makes up an economy and subsequently defining its boundaries as well as its relation to neighbouring fields.

The economy can be seen as the sphere in which we carry out practical actions for our needs. We produce things for ourselves and others, we make deals and shake hands and we work together on projects, often in exchange for money. We spend most of our waking hours during adult life working in jobs to ‘make a living’. We distribute, and redistribute, resources amongst each other. We do care work for each other, sometimes paid but often unpaid. In short, we do our best to provide for ourselves and each other.

On their own, these interactions seem simple, yet through them we quickly become entangled into larger systems. We engage in all sorts of organisations to coordinate our actions. We form professional associations and labour unions to represent our collective interests. We operate in companies, through which we become involved in supply chains stretching across the globe. We try to ensure that the more vulnerable members of our society, and the natural world on which we depend, are also taken care of. We erect complex structures of government to provide material, legal, educational and other infrastructure. In short, from the simple aim of provisioning for our needs, emerges a complex global system with its own dynamics and tendencies, which nobody has quite ‘designed’, but which we all influence, and which influences us, in many ways.

These dynamics of human material provisioning, from individual actions, interactions and bonds to larger organisations, institutions, agreements and their emergent dynamics, together form the ‘economy’. But what kind of thing does that make the economy? It has been described as a machine, a network, an ecology, a system as well as many other metaphors. Several different analytic approaches conceptualise the economy and its workings differently, each contributing new insights (see *Building Block 8: Economic*

*Theories* and its online resources). As we explain in more detail in the chapter *Foundation 2: Pluralism*, we argue that students should become familiar with these different ways of looking at economies. Throughout the book we sometimes refer to ‘the economic system’ as a synonym for the economy. We do not imply any particular conception of the economy by this.

### 3 Boundaries of the Economy

While there is broad agreement that certain systems and dynamics are clearly part of the economy, there is a lot of debate about the exact definition and the boundaries of the field. We do not pretend to be able to resolve these issues. Instead, we encourage teachers to openly discuss these debates with students (see also *Building Block 1: Introducing the Economy*). Still, for a book called *Economy Studies*, basing its philosophy on the concept of *the economy*, it is necessary to at least provide a working definition with boundaries. Here we discuss the economy’s relation to the natural world, to the social world and its geographical scope.

First, nature. We believe that the interactions between the economy and nature fall, to a large part, within the scope of economics. For example, the extraction of resources and the dumping of refuse are crucial activities in the human material provisioning processes, which often follow economic dynamics. The internal workings of nature, on the other hand, are the domain of the natural sciences. There are at the same time various fields, of rapidly increasing importance, where economists need to cooperate with natural scientists such as in the food industry. We need to better understand how economies are shaped by nature and how economic processes, in turn, influence nature.

For example, throughout most of history, economic cycles could only be understood by taking into account the agricultural cycles (Heilbroner, 1953). While agricultural cycles have lost some of their importance to economic dynamics, natural processes do remain crucial. The growing and harvesting of crops is heavily influenced by topsoil erosion, climate change and the extinction of pollinating insects. Economic dynamics (price competition, the drive for higher short-term efficiency, etc.) systematically affect the natural world, and the consequences in turn limit our ability to grow food to sustain ourselves: economics.

As the man-made ecological challenges of our world multiply, natural processes seem to be regaining their importance for the workings of economies. Even the sector seemingly least connected to the physical world, the financial sector, is increasingly concerned with the effects of

climate change (European-Commission, 2021; Wamsley, 2020). Ecological economists have a particular focus on these matters and provide useful teaching material on this. However, the connection with nature goes beyond ecological questions. Health- and technology-related issues are also relevant to the economy, with matters such as aging populations, mechanisation, automation, and, as has become very clear recently, pandemics. In sum, precisely because it is hard to draw an exact boundary between 'nature' and 'economy', the interactions between these two deserve a clear place in economics education.

Secondly, there is a boundary between the economy and the social world, where the latter stretches beyond our actions for practical needs. Here, too, we argue for paying attention to the boundary. Again, this does not mean we are advocating that all social phenomena should be studied by economists. The dynamics of voting behaviour and workings of political parties do still belong to political science; the ways in which information circulates in society to communication studies; the effects of educational practices and policies are still the domain of educational science and the causes of crime and recidivism of criminology – to name but a few. However, we do believe it is important to consider the *interactions* between the two spheres. Politics, information, education and crime are all highly important for our understanding of how economies work, despite being the subject matter of other disciplines. To be sure, economists using the rational choice approach have also contributed to research on many of these topics. While we applaud such interdisciplinary research endeavours, we do not suggest including such insights in economics education. Economics education should focus on understanding the economy, not on a specific method of investigation.

Interdisciplinary cooperation is thus needed to understand how the material provisioning aspect of human societies interacts with other social matters. The economy-oriented sub-disciplines within sociology, anthropology, geography and political science seem to be particularly well-suited to gain knowledge about these interactions. Some economic theoretical approaches, such as institutional and feminist economics, have also paid particular attention to the interactions between the economic and the wider social world. We suggest giving students a brief overview of these fields, so that they will know 'who to talk to' concerning matters spanning various disciplines.

Third and finally, economies have particular geographical boundaries. The term 'the economy' is often used to refer to the national economy. When we use it in this book, we generally do not presume any such specific scale level. Economies can be analysed at any scale of organisation and

geography: a household economy, a local economy, a national economy, the global economy. At each level, one can look at bundles of actions (of resource extraction, production, distribution, consumption and waste disposal) as well as the interactions and relations within and between these 'economies'.

We do think it is important to sensitise students to the main differences between these scale levels, and to teach them to pay attention to the ways in which these levels are related to each other. An example could be global value chains, where production facilities around the world interact with households, local economies, national economies, and with the global economy at large. We suggest a flexible geographical approach that allows one to choose and change the level of analysis in order to best understand the matter at hand. This is crucial because the different scale levels also have different relevant theoretical and methodological approaches.

## 4 Conclusion

To conclude, we argue that the aim of economics education should be to study the economy. The rest of the book is concerned with the 'what' and the 'how' of this general principle, containing building blocks of knowledge, suggestions for teaching material and much more. However, whilst reading the more detailed content of this book, we do hope that you will keep something in mind: these concrete recommendations are not the core of what we are trying to contribute. We are most happy to discuss and question the value of using specific teaching materials, specific theoretical frameworks, and even entire building blocks that we propose. After all, students generally do not retain most of the details, certainly not years after their programme.

What we hope students will retain from a good economics programme is the habit of studying the economy as it is, rather than as an abstract construct, and to think about it in a diversity of ways, independent of fixed theoretical formats. We hope students gain an intuition for various economic dynamics and an appreciation of how deeply the economy is interwoven with the other aspects of our life and world. An ability to see the many different values underlying various economic questions and the confidence that, when faced with a concrete economic problem, they can identify a few different starting points and be able to think through the problem because they know the different places to look, having already practised this during their training. If these basic notions stick, then in our eyes, a programme has been successful, regardless of its exact theoretical and methodological contents.