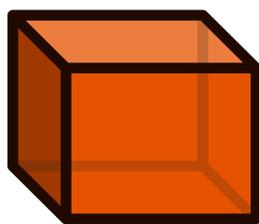


# Economy Studies for Microeconomics

**New Ideas & Materials for Educators & Students**



**Economy  
Studies**

Sam de Muijnck & Joris Tieleman

Rethinking  
Economics

one  
OUR NEW ECONOMY



Amsterdam  
University  
Press

## The book Economy Studies

This booklet is part of a series based on Economy Studies, a project for re-envisioning and redesigning economics courses and programs. The project emerged from the worldwide movement to modernise economics education, spurred on by the global financial crisis of 2008, the climate crisis, and the COVID-19 pandemic. It envisions a wide variety of economics graduates and specialists, equipped with a broad toolkit, enabling them to collectively understand and help tackle the issues the world faces today.

This is a practical guide for (re-)designing economics courses and programs. Based on a clear conceptual framework and ten flexible building blocks, this handbook offers refreshing ideas and practical suggestions to stimulate student engagement and critical thinking across a wide range of courses.

### Key features

- 1 Adapting Existing Courses: Plug-and-play suggestions to improve existing economics courses with attention to institutions, history, values and practical skills.
- 2 Teaching materials: A guide through the rapidly growing range of innovative textbooks and other teaching materials.
- 3 Example Courses and Curricula: How to design pluralist, real-world economics education within the practical limits of time and resources.

## What others say about Economy Studies

*“A tremendous resource for both teachers and students of economics.”*

Prof. **Wendy Carlin** (UCL), director of the CORE Economics Education Project

*“This is precisely the book that economics has been crying out for. It should fundamentally alter the way in which we teach, learn and practise economics and help us all appreciate what economics education has been missing for so long.”*

Prof. **Colin Mayer** (Oxford), Peter Moores Professor of Management Studies

*“This book is a tour de force. The mastery of the subject that the authors and their team display is astonishing. It was a source of inspiration for the development of the new program at the Vrije Universiteit of Amsterdam.”*

Prof. **Arjo Klamer** (EUR & VU)

## Why this booklet

In this booklet, we provide suggestions, content and teaching material for how to modernise and enrich microeconomics courses. In doing so we hope to assist educators in improving and adapting the courses they teach, as well as helping students make suggestions for how this could be done. It is important to note that we pose all these suggestions as potential sources of inspiration, not a checklist of all the things that necessarily should be included. After all, there is a practical limit to what can be taught within a single course.

Other booklets in this series available via [www.economystudies.com](http://www.economystudies.com):

- 1 Economy Studies for Students
- 2 Economy Studies for Program Directors and Deans
- 3 Economy Studies for Secondary Education
- 4 Economy Studies for Business Schools
- 5 Economy Studies for Public Administration & Law Programs
- 6 Economy Studies for Economics 101
- 7 Economy Studies for Microeconomics
- 8 Economy Studies for Macroeconomics
- 9 Economy Studies for Econometrics
- 10 Economy Studies for Labour Economics
- 11 Economy Studies for Public Economics
- 12 Economy Studies for Environmental Economics
- 13 Economy Studies for Development Economics
- 14 Economy Studies for Industrial Organisation
- 15 Economy Studies for Finance
- 16 Economy Studies for Monetary Economics
- 17 Economy Studies for International Economics
- 18 Economy Studies for Game Theory
- 19 Economy Studies for Behavioural Economics

Cover and interior design: Matterhorn Amsterdam

Publisher: Amsterdam University Press

Authors: Sam de Muijnck and Joris Tieleman, Our New Economy, Amsterdam 2021

**Open Access and Creative Commons (CC-BY)**

# Table of Contents

▪ Summary of the book	p. 5
▪ Adapting Microeconomics Courses	p. 10
▪ Pragmatic Pluralism: Overview	p. 16
▪ Pragmatic Pluralism 3: Consumption	p. 21
▪ Pragmatic Pluralism 7: Households	p. 24
▪ Pragmatic Pluralism 8: Inequality	p. 28
▪ Pragmatic Pluralism 11: Markets	p. 34
▪ Building Blocks: Overview	p. 38
▪ Building Block 5: Economic Organisations & Mechanisms	p. 40
▪ Conclusion: How to change economics education at your university?	p. 49

## Reading Guide

To get an overview of the Economy Studies project as a whole, start with the Summary.

For concrete suggestions on topics and material to enrich your own course, go directly to Adapting Microeconomics Courses.

For a sketch of how the theory part of a pluralist microeconomics course could look, see the Pragmatic Pluralism chapters.

For ideas and materials on teaching students about economic organisations and mechanisms, take a look at the Building Block chapters.

To see what you can do to help modernize economics education at your own university, see the Conclusion.

# Summary

*“I don’t care who writes a nation’s laws, if I can write its economics textbooks.”*

**Paul Samuelson**

## 1 Rethinking Economics Education

Humanity is wealthier, more connected and more technologically advanced than ever. Access to healthcare is rapidly expanding and poverty levels keep dropping in most parts of the world. At the same time, societies around the globe are facing a multitude of challenges. To name a few: climate change, biodiversity loss and resource depletion, growing inequalities and power concentrations, economic instability and soaring levels of private and public debt, ageing and migration, social polarisation and rising authoritarian nationalist populism. And, back on the table since 2020: pandemics.

Tackling such challenges requires a deep comprehension of the economy, which the current system of economics education does not sufficiently provide. Economists need a real-world understanding of how various industries work, how they are intertwined with each other, how economic power works, what roles states play and how these are embedded in our society at large. It also requires open minds which can look at issues from a variety of perspectives. A single theoretical framework cannot provide the answers to every question. A range of approaches which prioritise different methodologies, assumptions, units of analysis and outcomes, is necessary for gaining a good understanding of the economy and its issues. Economists need to be able to think critically, select the tools which are most relevant for the context and problem at hand, and understand the limitations and uncertainties of the conclusions that they draw from them. Finally, it requires an awareness and an explicit discussion of the moral dilemmas and normative trade-offs involved in economic decisions. In short, economists have a lot on their plate.

Economists also have a lot of influence, for good and for bad. Firstly, as key policy experts and advisors, economists largely run many of the most powerful public-sector organisations in the world: central banks, ministries of finance, social and economic affairs, the IMF and the World Bank. In the private sector, economists co-direct the behaviour of banks and other large companies. Secondly, the economic ideas that float around most prominently in our society exert an influence far beyond the formal advisory reports of professional economists, guiding decision-making of citizens everywhere. Economic thinking influences even those who do not become economists, as economists have a central role in the public debate and many citizens are taught basic economics in secondary or tertiary education.

The growing societal importance of economists and economic ideas has sparked a lively debate around the content and structure of economics education. A worldwide movement of students and academics calls for more pluralist, real-world focused and socially relevant programmes that would enable economics graduates to better understand and tackle the economic issues that the world faces today. This movement has accelerated over the last decade, spurred on by the global financial crisis of 2008, the climate crisis and the COVID-19 pandemic.

Under names such as Rethinking Economics, Netzwerk für Plurale Ökonomik, Institute for New Economic Thinking (INET), International Student Initiative for Pluralist Economics (ISIPE), International Confederation of Associations for Pluralism in Economics (ICAPE), Diversifying and Decolonising Economics, Economists for Future, Reteaching Economics, and Oikos International, these groups come together for dissent, discussion, self-education, action, campaigning, disseminating ideas and engaging with wider audiences.

Research by these groups indicates that many current programmes are not sufficient to prepare students for their future roles in society. They are often organised around the notion of ‘thinking like an economist’: training students to think exclusively from the neoclassical perspective and having skills in econometrics, while neglecting other valuable theoretical approaches and research methods. Furthermore, these analytical tools are taught in an overly abstract way and are presented as being value-free.

These groups and others have also produced a growing amount of innovative teaching material, beyond how economics programmes are traditionally structured. From online educational resources such as the open access CORE project and the bottom-up e-learning platform Exploring Economics, to multiple new pluralist and real-world focused textbooks. Many departments have introduced a wealth of new courses, or even started entirely new programmes.

## 2 This Book: Purpose and Overview

What has been missing so far in this field is an integral approach for constructing economics curricula and courses. This book aims to fill that gap. We bundle the ideas and materials of renewal and reform into a coherent multi-level vision for economics education: its overarching structure, its goals and its principles. We also provide the concrete building blocks for this in terms of academic content, including detailed overviews of teaching materials and practical suggestions. Finally, we translate these to the level of actual programmes and courses, providing a wide range of practical tools for implementation.

This entire book carries a CC-BY Creative Commons licence, which means that any part of the book may be freely copied, redistributed, remixed, transformed or built upon, without restrictions. As such, our proposal for a new integral approach to economics education can also be adopted and used partially, rather than being accepted as a whole. Each idea and suggestion can be judged and incorporated independently. You can totally disagree with principle 1 yet support principle 3. Or you might find little value in building block 5 and yet fall in love with building block 9. That’s the idea: it’s modular. Thus, the book as a whole can be used as a source of inspiration and overview of options for improving and renewing economics education.

### Part I: Foundations

The first part of the book, Foundations, sets out our philosophy and the three guiding principles that should underpin any economist’s education. In contrast to the currently common approach of teaching students to ‘think like an economist’, the Economy Studies approach is this: We envision an education where economics is not centred on a specific method of analysis or thought, but rather centred on a study matter, the economy. Economies can broadly be described as open systems of resource extraction, production, distribution, consumption and waste disposal through which societies provision themselves to sustain life and enhance its quality.

Based on this philosophy, we formulate three principles: Pluralism, Real-World and Values.

First, a discipline centred around a single subject matter requires a plurality of theoretical frameworks: one

single set of basic assumptions is not enough to understand such a multifaceted subject matter. Here it is important that students learn which ideas are compatible with each other and which are in conflict with each other. Some of these theories fall within the current economic mainstream, others exist on its fringes, and yet others are currently at home in other disciplines. It also implies a plurality of research methods, from basic statistics and regression analysis to interviews, network analysis and survey analysis. Such pluralism means that there is no single dominant framework, which might be more difficult for those receiving economic advice, but is ultimately beneficial for the quality of analysis and the resulting decisions.

Second, the notion of a programme centred on the subject matter of the economy implies a continuous and conscious orientation towards the economy as it exists in the real world. Students benefit from studying practical questions and gaining concrete knowledge, not just abstract analytical tools. For instance: How is the German car industry structured? What hurdles does the global energy transition face? What happens at a central bank? The Real-World principle ranges from studies of economic sectors and key institutions in the local or (inter-)national economy, to the histories of economies and case studies of specific economic challenges.

Third, we draw attention to the wide variety of normative principles and visions that can guide economic decisions and action, and which are often subtly embedded in economic theories. There is little sense in trying to 'solve economics problems' without considering what things exactly are worthwhile or problematic, and what values are at stake. Profits, sustainability, power, equal chances, equal outcomes, job creation, labour conditions, ownership, accountability, GDP growth, wellbeing – what should we focus on?

Economics has historically been, and is still, dominated by upper- and middle-class white men based in the Global North. This has consequences for each of the three principles. In terms of Real-World, it is important to pay attention to the lived economic realities of working-class citizens, women, minorities, and those living in the Global South. For Pluralism, we need to incorporate often ignored but valuable ideas and contributions of lower class, female, and non-western scholars. For Values, it is key to realise that people from different backgrounds have different priorities and values, and work to ensure that these are reflected in the questions we focus on and the theories and methods we use. In sum, we need to diversify and decolonise economics education.

The Foundations part ends with a chapter on didactics. Improving economics education is not simply a matter of changing what is taught, but also how it is taught. Various surveys among employers of economists show that more attention for communication and collaboration skills is needed. There are also worrying indications that economics classes often fail to facilitate open, critical, but also respectful, discussions. Finally, to make economics education more lively, interesting for students and connected to the real world, a greater variety of teaching and examination methods could be used. On all these fronts we provide practical suggestions.

The second part of the book is devoted to the Building Blocks. Where the Foundations part discusses the purpose and principles of economics education in general, the building blocks are more applied: ten thematic areas of knowledge and skills, which form the meat and bones of the Economy Studies course design method. Each of the ten building blocks covers an area of knowledge and set of skills that we see as essential for the education of future economists.

## Part II: Building Blocks

The second part of the book is devoted to the *Building Blocks*. Where the *Foundations* part discusses the purpose and principles of economics education in general, the building blocks are more applied: ten thematic areas of

knowledge and skills, which form the meat and bones of the Economy Studies course design method. Each of the ten building blocks covers an area of knowledge and set of skills that we see as essential for the education of future economists.

We start out with two building blocks that focus on acquiring basic economic knowledge, one conceptual and one focused on the real world. Introducing the Economy is about getting a feeling for economic matters, discussing what the economy is in the first place, why it is relevant, how it is related to other aspects of the social and natural world, and what societal roles economists have. Know Your Own Economy, on the other hand, has a more concrete focus as it is about knowledge of the actual (national and local) economy and its structures, institutions, and sectors.

The third and fourth building blocks deal with history: History of the Economy and History of Economic Thought & Methods. The fifth and sixth building blocks are more conceptually oriented, dealing with how economies can and have been organised, at micro and meso levels – Economic Organisations & Mechanisms – and at the macro level – Political-Economic Systems.

The seventh and eighth building blocks provide a broad and diverse analytic toolkit: Research Methods & Philosophy of Science and Economic Theories. These two, especially the latter, are relatively large. In most programmes, they will require more space than the other building blocks. Finally, building blocks nine and ten deal with practically contributing as an economist: Problems & Proposals is about analysing concrete economic challenges and formulating or evaluating proposed policies and actions, and Economics for a Better World asks how normative principles and visions can guide action to address the major challenges of our times, and helps students to be reflective of their own role as an economist

These building blocks can be used as templates to create stand-alone courses or modules, or they can be combined in courses. They can be re-ordered, combined or integrated in many ways to suit the specific needs of each programme. For instance, Building Block 3: Economic History could be taught as a stand-alone subject, or integrated with the fourth building block into a course History of Economic Thought and Reality, or integrated as a minor component in an existing Labour Economics course. In our ideal world, these building blocks would be combined to form a wide range of economics programmes. Different contexts and challenges require differently trained economists.

### **Part III: Tools**

The third part of the book, titled Tools, provides material that is directly actionable. It starts with Pragmatic Pluralism, a suggested format (including references) for teaching theory in a pluralist manner without drowning students in the enormous diversity of ideas out there. We list thirteen core economic topics and set out for each topic the two main opposing perspectives, a key complementary perspective and additional insights coming from other approaches.

Often there is no space in programmes for completely new courses but there is room for adjustment in some existing courses. In *Adapting Existing Courses*, we offer ready-to-use sets of suggestions and material to do so, for courses like Micro, Macro, Public Economics and Finance. The Curriculum Review Tool offers a clear starting point for applying our building blocks to an existing programme. This tool helps identify possible blind spots of a programme and suggests ways to strengthen it. The Example Courses that follow illustrate how the building blocks can be used to create completely new courses. The next chapter maps out several complete Example Curricula, demonstrating how the building blocks might be combined to form a complete bachelor or master programme in Economics.

While this book is primarily oriented towards full economics programmes in academic education, in the chapter Courses for Non-Economists we suggest limited packages of core economic ideas that may be useful for business schools, secondary school economics programmes, in an academic minor or for self-study. Finally, Learning Objectives offers tools for designing the learning objectives behind economics courses, starting not from the question ‘what does the teacher know best?’ but from ‘what do the students need to know, to be prepared for their future societal roles?’.

## Part IV: Online Materials

Economy Studies is more than a book. On the website, we offer an extended version of the Pragmatic Pluralism chapter, a broader range of Adapting Existing Courses topics, additional Example Courses and Example Curricula. We also provide background material on each of the Economic Approaches described in this book, as well as neighbouring sub-disciplines such as economic sociology and economic geography. In addition, we provide a more complete overview and discussion of research methods, coordination and allocation mechanisms, and the history of economic thought and methods. Finally, we offer much more extensive lists of teaching materials for each of the building blocks.

Online, we also work together with the INET Education Program, at the Institute for New Economic Thinking. This platform will host free educational resources online, accessible to students, teachers and the general public. This includes video lecture series, syllabi, teaching modules, lecture notes, readings, sample quizzes and exams. The platform will also serve as a center to build up an online community of teachers and learners, working together to improve the way economics is taught and learned. Each of the chapters in this book has a discussion page on that platform.

What kind of graduates would a programme based on these ideas and materials produce? It is important to acknowledge that they would not have all the skills that current-day graduates have. Less mathematical sophistication, less expertise in econometric analysis, less knowledge of neoclassical theory. In exchange for these losses, students gain: a deeper understanding and more concrete knowledge of the economy in which they live and will work. An awareness and understanding of the various ways in which economic processes are organised at the micro, meso and macro levels. Practical skills for investigating and tackling questions of economic policy: understanding the context and choosing the right tools, from a variety of theoretical and methodological approaches. And the ability to argue morally as well as analytically, and to clearly distinguish the two.

With this *creative commons* work, we hope to inspire economists and all students of the economy to rethink how we learn economics. The economic challenges we face as societies are enormous, so we desperately need well-prepared economic experts and a citizenry able to participate in economic discussions. Economics education has the vital task of preparing these people as best as possible.

This booklet provides a preview of the *Economy Studies* project. The full book also includes the complete set of building blocks, additional teaching materials, a curriculum review tool, example courses and curricula and suggestions for learning objectives. If you are interested to learn more, visit our website and buy or download the whole book, open access, or contact us.

[economy.st](http://economy.st)

# Adapting Microeconomics Courses

## General Approach to Adapting Existing Courses

Change often happens incrementally and slowly. In the economics textbook market, for example, there is an unwritten rule that new textbooks cannot differ more than roughly 15% from the standard textbook in order to be 'acceptable' (Colander, 2003).

While our book clearly breaks this rule and proposes more far-reaching and fundamental changes in most chapters, in this chapter we focus instead on how existing courses could be adjusted incrementally. By doing so, we hope to assist educators in improving and adapting the courses they teach without needing to rip them up and start again, as well as helping students make suggestions for how this could be done.

First, we set out the typical contents of current public economics courses. Second, we provide our suggested additions and changes. It is important to note that we pose all these suggestions as potential sources of inspiration, not a checklist of all the things that necessarily should be included. After all, there is a practical limit to what can be taught within a single course.

## Typical contents of current courses

Most introductory courses on microeconomics start from the neoclassical idea of the perfect market. This market is generally described as 'perfect' in the sense that it is, normatively speaking, optimal, and that it has exactly the following characteristics: rational self-interested behaviour, complete markets, perfect information, perfect factor mobility, no market power, no transaction costs, and no externalities. Later in the course and more advanced microeconomics courses, much attention is devoted to how such perfect markets interact with each other (general equilibrium theory). As well as what happens if one of the assumptions does not apply and the market is imperfect. For example: market power is central in industrial organisation, externalities in environmental economics, transaction costs in the theory of the firm, and information asymmetries in information economics. And finally, welfare economics focuses on whether such market imperfections justify government intervention in the market.

Frequently used textbooks::

- Principles of Microeconomics by Gregory Mankiw
- Microeconomic Theory: Basic Principles and Extensions by Walter Nicholson and Christopher M. Snyder
- Microeconomics and Behaviour by Robert Frank and Edward Cartwright
- Microeconomics by Anthony Partrick O'Brien and Glenn Hubbard
- Microeconomics by Austan Goolsbee and Steven Levitt
- Microeconomics by Daniel L. Rubinfeld and Robert Pindyck
- Microeconomics by Paul Krugman and Robin Wells
- Microeconomics: Principles, Problems, and Policies By Campbell McConnell, Stanley Brue and Sean Flynn
- Microeconomics: Theory and Applications with Calculus by Jeffrey M. Perloff
- Intermediate Microeconomics by Patrick M. Emerson
- Intermediate Microeconomics: A Modern Approach by Hal R. Varian
- Intermediate Microeconomics: A Tool-Building Approach by Samiran Banerjee
- Advanced Microeconomic Theory: An Intuitive Approach with Examples by Felix Munoz-Garcia

# Suggested additions and changes

## Practical skills and real-world knowledge

When teaching students how markets work, it can be particularly useful to let them explore and analyse real markets and sectors. Here we advise going beyond the typical example boxes in textbooks. While these are useful didactical tools to bring theory across, they do not give students substantial concrete knowledge about the actual economies. Instead, we recommend also treating real markets and sectors as topics in their own right, using theory as a tool rather than as the sole aim of the course.

This could be done by spending a lecture on a sector, its structure, its different actors, its dominant business models or other ways of functioning, and its relationship to the rest of the economy. Subsequently, students could be given assignments to conduct further analyses of the sector, through case studies and/or quantitative research. Here it can also be especially enriching for students to go and talk to people in the sector. Guest lectures are one form for this, but these contacts could also double as research methods training: interviews or field visits.

For more detail, see Building Block 2: Know Your Own Economy and Building Block 9: Problems & Proposals.

## A range of analytical tools and approaches

When teaching students microeconomics it is helpful and important to make students realise that what they are learning are theories, not direct descriptions of reality. This might seem like an obvious point for any economist or scientist, but it is often not for students, including ourselves when we started studying economics. Before going into the various theories and ideas, courses could, for example, pay attention to philosophy of science and what it means to scientifically study the (economic) world and develop theories about it.

For more detail, see Building Block 7: Research Methods & Philosophy of Science.

It can be very useful to teach students other theories too, besides neoclassical microeconomic theory. The concept of competition is central to microeconomics and therefore it would help students to explain both the classical and neoclassical conceptions of competition.

Besides markets, households play a key role in microeconomics. Students could benefit from learning about neoclassical ideas to do with rational utility maximisation within the household as well as feminist economics on the unequal division of unpaid labour.

Relatedly, it is important for students to learn that power relations and institutions have an enormous impact on markets and on economic processes more broadly. In this case we advise going beyond the mainstream notions of market power and transaction costs, and also include insights from Marxian and feminist economics to better understand how class, gender and politics play crucial roles in the economy.

Finally, it is relevant to discuss the meaning of consumption with students, as this has a uniquely central role in microeconomics courses. Besides neoclassical ideas, institutional and ecological economics are of particular importance as these focus on how preferences are socially constructed and how material consumption relates to human wellbeing.

## Teaching Materials

- *Economics After The Crisis* by Irene van Staveren, from 2015, chapters 1, 2, 3, 4, and 5. This textbook discusses the topics of households, consumption, firms and markets from the neoclassical, institutional, social and post-Keynesian perspectives.
- *Economics: The User's Guide* by Ha-Joon Chang, from 2014, chapter 6, 7 and 9. This book provides a pluralist and accessible introduction into, among others, different economic approaches, the world of production, happiness and inequality.
- *Introducing a New Economics* by Jack Reardon, Maria A. Madi, and Molly S. Cato, from 2017, chapters 4, 9, 10, and 13. This textbook introduces the topics of economic value, markets, firms, consumption, and power from the post-Keynesian, Austrian, Marxian, and neoclassical perspectives.
- *The Economy* by The CORE Team, from 2017, chapters 3, 4, 5, 6, 7, 8, 11, 12, and 19. This textbook discusses many microeconomic topics, such as supply and demand, the firm, social interactions, power and inequality, while including recent mainstream insights and empirical findings.
- *The Microeconomics of Complex Economies: Evolutionary, Institutional, Neoclassical and Complexity Perspectives* by Wolfram Elsner, Torsten Heinrich, and Henning Schwardt, from 2014, chapter 17. This innovative textbook makes readers familiar with new insights coming from frontier mainstream economic research, with particular attention to game theory, agent-based modelling, system dynamics, and empirical realities.
- *Rethinking Economics: An Introduction to Pluralist Economics* by Liliann Fischer, Joe Hasell, J. Christopher Proctor, David Uwakwe, Zach Ward Perkins, Catriona Watson, from 2017. This collection of essays provides an accessible introduction into post-Keynesian, Marxian, Austrian, institutional, feminist, behavioural, complexity and ecological economics.
- *Real World Micro*, by Dollars & Sense, most recent edition from 2020. This collection of essays explores the empirical reality of many microeconomic topics, such as the minimum wage, trade policy, and stock markets.
- *Towards a political theory of the firm*, by Luigi Zingales, from 2017. In this paper Zingales argues for paying more attention to the role of power in firms as well as providing a brief history of different theories of the firm.
- *Firms as political entities* by Isabelle Ferreras, from 2017. A provocative book on the economic history and theories of the firm, arguing for a reappraisal of the role of power in the firm.
- *An Evolutionary Alternative to Mainstream Microeconomics* by Joseph E. Pluta, from 2015. A critical book proposing a more dynamic approach to the microeconomics of firms and markets building on behavioural, institutional as well as evolutionary insights as the title suggests.
- *Classical vs. Neoclassical Conceptions of Competition* by Lefteris Tsoulfidis, 2011. This paper juxtaposes the static and dynamic views of competition, respectively held by neoclassical economists on the one hand, and classical, Marxian, Austrian economists and business scholars on the other hand.
- *Rethinking Microeconomics: A Proposed Reconstruction* by Anwar Shaikh, from 2012. Shaikh argues microeconomics education could be more robust, rigorous and empirically grounded, building on old and new insights, in particular concerning emergent properties and shaping structures. Interestingly, he also builds on the insight of Becker (1962, "Irrational Behavior and Economic Theory." *Journal of Political Economy*) that the key empirical consumption patterns, such as downward sloping demand curves, Engel's Law, and Keynesian type consumption functions, can be derived without assuming rational utility maximisation and only requires two assumptions: that there is a budget constraint and a minimum level of consumption for necessary goods. His book *Capitalism* can also be useful for teaching.

## Institutions and different ways of organising the economy

Microeconomic courses are generally centred on studying markets. The market is, however, only one of the coordination and allocation mechanisms through which economies are organised. Commons and hierarchies (both private and public) are other widespread mechanisms, and crucial concepts for understanding how economies function. Microeconomic courses could thus be enriched by adding other coordination and allocation mechanisms, such as hierarchies and commons. Besides discussing mechanisms, it could also be fruitful to discuss the different forms of economic organisation with students, ranging from multinational corporations, state institutions, and households to democratic cooperatives, family firms and civic organisations.

For more detail, see Building Block 5: Economic Organisations & Mechanisms.

### Teaching Materials

- *Introducing a New Economics* by Jack Reardon, Molly S. Cato, Maria A. C. Madi, from 2018, chapters 10, 11 & 12. Three accessible and brief chapters, with accompanying classroom activities and questions, introducing students to what public goods, commons and firms are and how they can be governed, for example as a corporation owned by shareholders or as a cooperative owned by its workers or consumers.
- *Economics: The User's Guide* by Ha-Joon Chang, from 2014, chapter 5. A short well-written chapter on different economic actors and organisational forms, from multinational corporations, cooperatives, and labour unions, to governments and a variety of international organisations.
- *Organisations: A Very Short Introduction* by Mary Jo Hatch, from 2011. A brief, accessible and yet highly informative book full with scientific theories and ideas on what organisations are, how they can be structured, how they change, and their internal dynamics and interaction with markets and society.
- *Governing the Commons: The Evolution of Institutions for Collective Action* by Elinor Ostrom, most recent edition from 2015, chapters 1, 2 & 3. A sharp and rigorous discussion of commons, how they are different from markets and hierarchies, how we should theorize them and real-world examples that help us better understand how they can be successful.
- *Contemporary Capitalism: The Embeddedness of Institutions* by J. Rogers Hollingsworth and Robert Boyer, most recent edition from 2012, chapter 1. An instructive analytical introduction and overview of different coordination and allocation mechanisms, such as markets, public and private hierarchies, networks, communities and associations.

## Societal relevance and normative aspects

Like economics 101 courses, microeconomics courses could benefit from helping students understand what it means to be studying the economy, what it is and why it is relevant. Microeconomic courses can further be enriched by explicitly discussing the variety of normative principles that guide decision making. Here, it is particularly enriching to discuss both utilitarian welfare criteria and other normative principles such as fairness, legitimacy, and stability. The main goal would be to help students understand normative trade-offs and be able to clearly communicate them to non-economists.

In addition, when discussing markets and other coordination and allocation mechanisms, one could make students familiar with normative debates about what their roles in the economy should be. A particularly relevant debate seems to be whether the entirety of human life and society should be marketized and commodified, or whether there should be 'moral limits of markets' and if so where should those limits be.

Finally, students could be introduced to the normative aspects of theoretical approaches. Showing students that analytical tools have values embedded in them can be an eye-opener that will help them in their future

careers to be able to identify and distinguish normative and positive aspects. For instance, show a few examples of values embedded in analytical tools, such as the normative assumptions made in cost-benefit analyses or those underlying theoretical approaches like neoclassical, Marxian and ecological economics, as discussed in chapter Foundation 4: Values.

For more details, see Building Block 1: Introducing the Economy and Building Block 10: Economics for a Better World.

### Teaching Materials

- *Economic Analysis, Moral Philosophy, and Public Policy* by Daniel Hausman, Michael McPherson, and Debra Satz, most recent edition from 2016. A great introduction into normative economics, covering its many areas and topics from welfare economics and utility theory to liberty, equality and justice.
- *A Guide to Ethics and Public Policy: Finding Our Way* by D. Don Welch, from 2014. A brief but insightful book providing a broad framework for evaluating policy proposals and outcomes, organised around five moral principles: benefit, effectiveness, fairness, fidelity, and legitimacy.
- *Political Ideologies: An Introduction* by Andrew Heywood, most recent edition from 2021. A useful and accessible introduction into a wide variety of political ideologies, from liberalism, socialism, and conservatism to feminism, nationalism, and green ideology, that shape much of our normative thinking on the economy.
- *Moral Views on Market Society* by Marion Fourcade and Kieran Healy, from 2007. An insightful overview paper on the key different normative perspectives on capitalism, enabling readers to better understand and place ideas and arguments prevalent in many debates about the economy.
- *What Money Can't Buy: The Moral Limits of Markets* by Michael J. Sandel, most recent edition from 2012. A highly influential and well-written book reflecting on the moral place of markets in society and asking the key question whether everything should be up for sale. The Institute for New Economic Thinking has also launched a video series on the book and topic.

### History

When introducing students to (micro)economic concepts, it can be very informative for them to understand when and how these were developed. There is no need to set out how the details of the models evolved over time, but it can be helpful to know of a few important breakthroughs in their development, the context in which they occurred and the contributions they made to the debates within the discipline. Besides this history of economic thought, economic history can also enrich microeconomic courses as it can help students get a better understanding of the roles that markets can play in economies. By discussing the history of markets, key insights and facts can be conveyed to students in a different way from explaining models and theories. Key questions could be: how did markets emerge and evolve over time; which different institutional frameworks concerning markets have existed and how did they perform; are there important differences between different kinds of markets, such as product markets in goods and services, and factor markets in land, labour and capital?

For more detail, see Building Block 3: Economic History and Building Block 4: History of Economic Thought & Methods.

### Teaching Materials

- *The Worldly Philosophers: The Lives, Times and Ideas of the Great Economic Thinkers* by Robert Heilbroner, most recent edition from 1999. While first published in 1953, it remains perhaps the best introduction into the history of economic thought to this day. In a remarkably well-written and accessible

manner it discusses the ideas of key economists and puts them into historical context.

- *Grand Pursuit: The Story of Economic Genius* by Sylvia Naser, from 2012. Another very accessible but more recent book introducing the history of economic thought through captivating narratives.
- *A Companion to the History of Economic Thought* by Warren J. Samuels, Jeff E. Biddle, and John B. Davis, from 2003, chapter 24 & 25. An extensive and detailed collection of contributions covering many periods and developments in the history of economic thought, with two chapters specifically devoted to the history of post-war neoclassical microeconomics and formalist revolution in economics.
- *The Great Transformation: The Political and Economic Origins of Our Time* by Karl Polanyi, most recent edition from 2001. This classic explores the economic history of the rise and fall of the market economy and how this transformed society.

### **What to take out**

To create space for the above suggested additions, we advise focussing more on the key ideas and intuitions behind the taught models and devote less teaching time to their technicalities and mathematics. As teaching students to reproduce and work through mathematical models often takes up a large part of the teaching time, this would give the teachers the opportunity to devote more time to practical knowledge, the relevance, institutions, and history. Furthermore, a more even balance between neoclassical economics and other economic approaches could be achieved by decreasing the number of neoclassical ideas and models that are taught.

# Pragmatic Pluralism: Overview

Key insights and ideas for thirteen core topics in economics, organised by selecting the most relevant theoretical approaches per topic and contrasting them with each other.

This chapter provides a map through the complex jungle of economic theories. There are many different theoretical approaches, and each aspect of the economy has been analysed by a number of different ones. However, it is neither feasible nor productive for students to engage with every possible angle for every topic. Hence, this chapter, together with *Building Block 8: Economic Theories*, sets out an alternative approach: pragmatic pluralism. That is, make a selection of the most relevant theoretical approaches for the topic that is taught.

The building block chapter sets out the general approach of *pragmatic pluralism* (see [economy.st/bb8](http://economy.st/bb8)). This chapter instead focuses on the content, applying the pragmatic pluralism approach to several of the core topics in economics. The full chapter (see [economy.st/pragmatic](http://economy.st/pragmatic)) covers the following thirteen topics:

- 1 Governments
- 2 Business Cycles
- 3 Consumption
- 4 Economic Development
- 5 Finance
- 6 Firms
- 7 Households
- 8 Inequality
- 9 International Trade
- 10 Labour
- 11 Markets
- 12 Money
- 13 Nature

To reiterate, the core logic of this approach to teaching economic theory is that whilst pluralism is an essential aspect of academia, we also need to be pragmatic to successfully apply it in practice. Rather than pursuing the extreme of either only focusing on one approach, or including every possible strand of thought for every topic, we propose a pragmatic middle ground: teaching a select number of approaches for each topic. In this way, it is possible to introduce students to the variety and diversity of economic thinking, whilst still having enough time and space to properly discuss each of the insights in detail with them.

*“Reasonable people may have different theories of the way the economy works – different pictures in their heads of what connects one thing with another in the economic system.”*

**Solow** (1983, p. 67)

Theory is the beating heart of all social sciences, including economics. It allows one to understand the components, processes and causal mechanisms characterising various social phenomena in a more structured and systematic manner. However, every topic can be understood from various theoretical perspectives, which can both complement and contradict each other.

Most contemporary economics programmes focus almost exclusively on neoclassical theory. In opposition, some other programs choose to focus entirely on another perspective. We believe, in contrast to both, that there is no single ‘correct’ or ‘best’ way to understand the economy as a whole. It is too large and complex to be captured by a single point of view.

Hence, we propose a fundamentally pluralist approach to teaching theory. It is essential to teach students a variety of approaches to give them a rich and broad understanding of the topic, the debate around it and learn to think critically and not to take things as absolute truths. Approaches should be judged on their merits, topic by topic: thinking critically and reflectively to decide which theoretical points of departure help us best to understand this particular corner of the economic system.

Including this pluralist discussion is crucial for the development of students’ vital critical thinking skills, through the investigation of links and contradictions between the insights learnt. For a pluralist economics education to be truly valuable, students must graduate not just with strong knowledge of a range of perspectives and methods, but also with a critical understanding of the limitations and blindspots of those tools. Without this, they will struggle to select the most relevant approaches to the task at hand, and to judge how much confidence to have in the conclusions that they reach. Active discussion also has the additional benefit of making sure that students are genuinely understanding the content taught to them, rather than just temporarily memorising it for an exam.

## In Practice

So how does this approach work when applied to a topic?

Each topic is subject to debate between alternative views, and to make students familiar with these competing theories, for every topic the two main opposing perspectives are selected. But not all differing ideas and theories are necessarily in conflict with each other. There are also approaches which can supplement one, or both, of the main opposing perspectives, contributing to a richer understanding of the topic. Therefore, each topic also contains one main complementary perspective. On top of these three main theoretical approaches, there are many other useful ideas that students could benefit from by learning about. For this reason, we provide a short summary of other useful insights and ideas that could be included for each topic.

For each topic, we suggest a few particularly useful teaching materials. In the resource chapter *Teaching Materials*, we provide longer lists of suggestions.

The topics presented below could be, and often already are, taught in individual courses. They can also be combined, especially when there is significant overlap such as with Finance and Money for example, although this does of course shorten the teaching time that can be devoted to each topic and its insights. As to determining the relative teaching time to the various perspectives, the following rule of thumb could be useful: the first half of the course is devoted to the two main opposing approaches, the third quarter to the complementary perspective and the last quarter to the other useful insights. As with every rule of thumb, the specific case and context should be taken into account and we advise teachers to determine the relative teaching time devoted to each insight taking the local situation into account.

## Cautionary Notes

Before we go into the specific ideas and insights, we want to provide a short recap of the cautionary notes, which are described in full in *Building Block 8: Economic Theories* (see [economy.st/bb8](http://economy.st/bb8)).

Firstly, the following overview should be viewed as only one possible example of a pragmatic pluralist approach to teaching economic theory. An overview such as this one should never be set in stone, as the discipline itself is also constantly evolving. While some approaches, such as complexity economics, currently have relatively few insights listed in the overview, this might change over the coming years as more scholars will further develop this approach and apply it to different topics.

Secondly, the overview could easily be expanded to allow for more detail and nuance or a wider range of perspectives or topics. The examples have been written to suit the time constraints of an individual module. The framework could be adapted for a relatively brief programme, such as an economics major in a liberal arts programme, by selecting fewer perspectives for each topic and including fewer topics and possibly combining them into individual modules. Equally, if the available teaching time is greater, for example with a theory-oriented four year undergraduate economics programme, more topics, insights and a greater range of perspectives could be included.

Thirdly, our economics education and own reading has shaped the topics and perspectives that are presented below. This is greatly influenced by living and studying in the Netherlands, and Europe more broadly, and the strong bias in the discipline as a whole towards economic thinking from the Global North. We strongly believe that economics curricula need to be decolonised and with this book we try to contribute to this. To help us do so, we have asked students and professors from all over the world, as well as organizations active on this issue, such as *Diversifying and Decolonising Economics*, for advice. Nevertheless, it is important to say that this is not an area that we personally have particularly strong knowledge in and feel that more could, and should, be done in this regard. We therefore welcome all suggestions on how the content in this chapter, and the rest of the book, could be enriched and improved by including other topics, perspectives and insights.

Finally, this technique of putting approaches as well as topics in separate boxes is only a heuristic for identifying the most important ideas and insights to teach. Many of these approaches and topics are strongly interlinked and can be difficult, or even impossible, to truly separate from each other. As a result, individual thinkers and their ideas can be difficult to put into a single box. For instance, Joseph Schumpeter built on classical, historical, Marxian, Austrian and neoclassical ideas, and is often seen as a key inspiration for evolutionary economics, which is therefore also sometimes called Schumpeterian economics. It is important

that students learn about these links and become familiar with how both the ideas and the topics are connected.

With these cautionary notes in mind, we hope this overview can be of some help in putting the pragmatic pluralist approach in practice and adapting economic theory courses.

## Core Theoretical Insights Organised by Topic

Below we have put the thirteen economic topics (along the top) and sixteen theoretical perspectives (down the side) in a table to give an overview of how our pragmatic pluralist approach works.

It would be possible to fill in every box (representing a combination between a topic and an approach) to create what could be described as ‘indiscriminate’ pluralism. We think that for research purposes, such an approach could be very useful as it could generate new insights by utilising approaches previously not applied to a topic. However, for education we would not advise such an approach, as it would be impossible to teach every possible perspective on a given topic in a meaningful way, given the limited teaching time available. Instead, we advise teachers to focus on the main insights into their chosen topic. In other words, when teaching an economics course, they should focus on the combinations of the topic and perspectives that are most important. For every topic, we have noted to the two main opposing perspectives with ■, the main complementary perspective with □, and the perspectives that can provide smaller but still valuable additional insights with +. In this way, many boxes stay empty. This does not mean that the perspective has nothing to say on the topic, as it often does. But economics education requires us to make choices as to what to teach and what not. In this overview, below we have presented an attempt at making such choices, asking which insights help us understand the world the most. Sometimes there are cases in which perspectives share a certain insight. This is discussed in the explanations of the insights, but for brevity each insight is attributed to a single perspective in the table.

	Governments	Business Cycles	Consumption	Economic Development	Finance	Firms	Households	Inequality	International Trade	Labour	Markets	Money	Nature
Austrian School	+	■						+			+	■	
Behavioural Economics	+			+	+			+			+		
Classical Political Economy	+			■		+					■		□
Complexity Economics	+				□			+					
Cultural Approach					+		□			□	□	□	
Ecological Economics			□	+									■
Evolutionary Economics	□			+		□							
Feminist Economics							■	□		+			
Field Theory						■					+		
Historical School	+			■								+	
Institutional Economics			■	□		■							+
Marxian Political Economy	+	+		+			+	■		■			
Neoclassical Economics	■	□	■	+	■	+	■	■	■	■	■		■
Post-Keynesian Economics	■	■			■			+	■			■	
Social Network Analysis						+				+			
Structuralist Economics				+					□				
Other	+		+			+		+	+				+

- Main opposing perspective
- Main complementary perspective
- +

# Pragmatic Pluralism 3: Consumption

One of the purposes of our economy is to produce and distribute goods for consumption. It is one of the main activities that humans in an economy undertake. But there are many questions on the source and nature of various forms of this activity. A core point of contention is what determines buying choices: are people entirely independent, or are they influenced by their environments? Is consumption the highest goal? Or should we see it merely as a means to other ends, such as human wellbeing?

## Main opposing perspectives

- Institutional economics: Preferences are culturally and socially constructed
- Neoclassical economics: Humans have insatiable and innate preferences

## Main complementary perspective

- Ecological economics: Material consumption ≠ human wellbeing

## Additional perspectives and insights

- + Other: Surveillance capitalism

## Main opposing perspectives: Institutional economics and neoclassical economics

There are two fundamentally different perspectives on consumption. One views it as the main goal of the economy as it allows individuals to satisfy their sovereign and given preferences. The other perspective sees consumption more as a social process in which learned habits and desires are met.

Already in the nineteenth century there was discussion about how autonomous consumers were in their decisions. Many classical political economists were arguing that consumers were sovereign, leading to a proposal of completely free markets, while most socialist thinkers questioned this sovereignty. Marx emphasised the distinction between use value and exchange value, with the former describing the intrinsic value which enables it to satisfy human needs or wants and the latter referring to what one can trade it for in the marketplace.

Neoclassical economics responded to Marxian political economy by basing its theoretical framework on the idea of full consumer sovereignty. In neoclassical economics the only goal for people is to maximise their utility. Utility is derived from people's personal preferences, which are eternally stable and given from birth, and consumption is their only means to endlessly satisfy those preferences. In this perspective, consumption in consequence becomes the sole reason to undertake work or educate ourselves, as it in turn enables us to consume more in the future. These atomistic and rational utility maximizing consumers determine through their demand what is produced. As such, neoclassical economics replaced the primacy of production, as in classical and Marxian political economy, with the primacy of market exchange, which enables individuals to consume.

Institutional economics, as well as the cultural approach and field theory, argue forcefully against the neoclassical idea that people have given and constant preferences, put more bluntly that people are born with certain tastes for what they like to consume for the rest of their life. Institutional economics rather emphasises the impact of institutions, such as cultural norms and advertisement, on people's preferences. The cultural approach focuses more on how all wants are culturally constructed. The cultural approach thus goes further, as it argues that practically all consumption is to socially communicate symbols, while institutional economics

argues that our wants are merely influenced by our environment. Important among those influences is advertisement by companies, which convinces people that they need things they previously didn't. This is called the dependence effect, as (production) firms create artificial wants. Institutional economists therefore argue that the neoclassical idea that production exists purely to satisfy wants, is therefore untrue.

Another important factor shaping people's consumption is social class. Thorstein Veblen, a founder of institutional economics, argued that people consumed luxury goods and services to enhance their status by displaying their economic power. He called this 'conspicuous consumption'. A related concept is conspicuous leisure, which describes the socially motivated idleness in which elites throughout history engaged as they despised labor and glorified non-productivity. Many sociologists and anthropologists have further developed ideas about how consumption functions within societies, chief among them the theory of social distinction by Pierre Bourdieu, a major field theorist. He argues that people do not only show their economic capital through their consumption, but also their cultural capital which refers to cultural knowledge and skills people obtain through their education and upbringing. Drawing upon a wider range of schools and disciplines one can see that deciding what to buy is not simply a hedonistic individual decision, but part of social status games.

### **Main complementary perspective: Ecological economics**

Ecological economists reject the hedonistic view of consumption from neoclassical economics, as they argue that there is no necessary link between material wealth and human well-being. Instead of seeing people as insatiable, they argue that people have a limited number of basic needs. The focus is therefore on how we can ensure all people are able to meet these basic needs while remaining within the planetary boundaries, rather than aiming for maximal consumption. Other economists, such as feminist and behavioural economists, have also been advocating to change the goal of the economy to a broader idea of human wellbeing. This line of research has initiated various alternative measurements to GDP, such as the Index of Sustainable Economic Welfare, Human Development Index, Happiness Index and the Better Life Index.

### **Additional perspectives and insights**

In 2019, the social psychologist Shoshana Zuboff published the book *The Age of Surveillance Capitalism* where she argued digital companies have developed a new business model that relies fundamentally on behavioural data. Many online products seem to be 'free' for consumers because they essentially pay with their personal data which is commodified mainly through targeted advertising which often has the power to influence or manipulate people's behavior. While digitalization was earlier hoped to bring about a democratization of society, it seems to create new profit-making opportunities which poses problems for privacy rights and mental wellbeing.

These new digital business models are also related to the concept of prosumption, in which the process of production and consumption become indistinguishable and are simultaneously performed by the same people, prosumers. Also within the energy sector the concept of prosumption is relevant, often seen in a more positive light, as solar panels, for example, allow households to simultaneously produce and consume energy.

### **Teaching Materials**

- Chapters & Papers:
  - *Economics: The User's Guide* by Ha-Joon Chang, from 2014, chapter 6. This brief and accessible pluralist book contains a useful introductory chapter on economic output and happiness.
  - *Economics After The Crisis* by Irene van Staveren, from 2015, chapter 3. This well-written textbook sets out the neoclassical, post-Keynesian, social economic and institutional perspectives on consumption.

- The Economy by The CORE Team, from 2017, chapter 7. This successful and practical textbook introduces students to market demand and consumer behavior.
- Principles of Economics in Context by Jonathan Harris, Julie A. Nelson and Neva Goodwin, most recent edition from 2020, chapter 9. This useful textbook, which pays particular attention to social and environmental challenges, contains a chapter devoted to consumption and the consumer society.
- The Handbook of Economic Sociology by Neil J. Smelser and Richard Swedberg, from 2005, chapter 15. This extensive and yet accessible book for non-sociologists, provides an impressive and useful overview of the field of economic sociology, including a chapter on culture and consumption.
- Introducing a New Economics by Jack Reardon, Maria A. Madi, and Molly S. Cato, from 2017, chapter 13. This ground-breaking textbook weaves together pluralist theory and real-world knowledge and contains a chapter on consumption.
- Capitalism: Competition, Conflict, Crises by Anwar Shaikh, from 2016, chapter 3. This book discusses and compares the different theories and models that can be used to explain observed consumer behavior.
- Veblen, Bourdieu, and Conspicuous Consumption by Andrew Trigg, from 2001. This article discusses the ideas on consumption coming from institutional economic and economic sociology.
- Books:
  - The Affluent Society by John Kenneth Galbraith, most recent edition from 1999. An influential book critically discussing what it means to live in an affluent society and the roles that consumption, advertising, and institutions have in it.
  - The Sociology of Consumption: An Introduction by Peter Corrigan, from 1997. This book introduces students to the vast literature on the social dynamics involving consumption with specific attention to topics such as shops, advertising, women's magazines, the home, tourism, and fashion.
  - The Ecological Economics of Consumption by Lucia A. Reisch & Inge Røpke, from 2004. This book introduces students to the growing literature on the ecological aspects of consumption, looking at its environmental impact, needs and wants, lifestyles and daily routines, consumer policy and possibilities for more sustainable consumption patterns.
  - The Economics of Consumption: Theory and Evidence by Tullio Jappelli and Luigi Pistaferri, from 2017. This book describes different models of consumption, such as the precautionary saving and buffer stock models.

# Pragmatic Pluralism 7: Households

‘From the homicidal bitchin’ / that goes down in every kitchen / to determine who will serve and who will eat’. Leonard Cohen knew it: the household is the locus of complex economic struggles. Much of our economic life plays out inside households as we care for ourselves and each other, decide how to live, what to consume, how to relax but also do the housekeeping. Are gender relations a main driver of these decisions, or is it best understood as utility maximization?

## Main opposing perspectives

- Feminist economics: Unequal division of unpaid labour
- Neoclassical economics: Rational utility maximization within the household

## Main complementary perspective

- Cultural approach: Household relations vary strongly between cultures

## Additional perspectives and insights

- + Marxian political economy: Class fundamentally shapes the meaning of gender

## Main opposing perspectives: Feminist and neoclassical economics

There are two dominant ways of looking at what happens in the household, one emphasizing choice and the other stressing constraints. The feminist view emphasises social relations in which power asymmetries and gender roles play an important part. The neoclassical view assumes rational decision making through which utility is maximized.

Feminist economics analyses how patriarchy shapes the economy and gender relations inside households play a key role in this. Gender inequalities have both material aspects with unequal income and wealth distributions, as well as cultural aspects, with gendered notions of ‘good’ behavior. While self-interested behavior, for example, is more often encouraged for men and seen as masculine, altruist behavior is often imposed on women and seen as feminine.

Relatedly a key insight of feminist economics is that unpaid labour, often seen as altruist behavior, is disproportionately performed by women. Furthermore, time budget studies show that many women work double shifts, one paid and the other unpaid, while this is less the case for men. Unpaid labour, such as caring for others, is critical to human wellbeing, the development of human capabilities and the functioning of the economy as a whole. But while these unpaid economic activities are largely ignored in national account statistics, estimates suggest that they may even amount to about half of all economic activities (OECD, 2018).

In contrast to feminist economists who emphasize unequal economic bargaining power between men and women, some neoclassical economists suggest the gendered division of paid and unpaid labour is efficient. Because of natural differences and individual characteristics, women are assumed to be (inherently) more productive in unpaid labour tasks, while men are better at performing paid labour, explaining the gendered division of paid and unpaid labour.

Within neoclassical economics, households can be modelled as unitary actors in which the head of the household is assumed to maximize the collective utility. Another option within neoclassical economics is to see households as places where rational game theoretical bargaining, in which everyone maximizes one’s

own utility, takes place. These models try to model how contextual institutional factors and differences in individual assets can explain intra-household negotiations and decisions.

A key characteristic of the neoclassical approach to households, sometimes referred to as the new home economics, is that they conceptualize household labour divisions as rational market transactions. As such unpaid labour, such as raising children, in this approach is understood as ‘production of human capital’ and marriage decisions are understood akin to negotiations about the business contracts resulting in an efficient division of labour. Becker (1976, p. 10), for example, wrote: “According to the economic approach, a person decides to marry when the utility expected from marriage exceeds that expected from remaining single or from additional search for a more suitable mate. Similarly, a married person terminates his (or her) marriage when the utility anticipated from becoming single or marrying someone else exceeds the loss in utility from separation, including losses due to physical separation from one’s children, division of joint assets, legal fees, and so forth. Since many persons are looking for mates, a market in marriages is said to exist.”

### Main complementary perspective: Cultural approach

Economics is not the only discipline studying households and families, as they have been core topics of the discipline of sociology. Within the sociology of families, there are various theoretical frameworks, from structural-functionalism and life course theory to symbolic interactionist, or cultural, approach. There are also feminist and social exchange theories, which largely overlap with respectively feminist and neoclassical theories about the economics of the household.

A key insight of the cultural approach is that conceptions about what the family is and how it should function are subject to socio-historical change and are crucial determinants of what goes on in the family. Over the last decades, developments such as the rise of women performing paid labour, divorce, cohabitation, and same-sex marriage, have fundamentally changed how families look. Besides the traditional nuclear family, other family structures such as the single parent, step, foster, adoptive, extended, informal, and transnational family, have become more prevalent. Accompanying these changes in family structures, it is found that the gender conceptions of men change at a slower pace than those of women, giving rise to discrepancies of expectations and preferences. These gender conceptions relate to ideas about the “breadwinner”, motherhood, work and relationship quality, household utility, gendered separate spheres, and male privilege, and influence decisions concerning relationship timing and childrearing as well as education and employment.

### Additional perspectives and insights

**Marxian political economy:** Despite its often acknowledged central role in the economy, the household has had a relatively marginal role throughout the history of economic thought. A key exception is the innovative group of (female) consumer and household economists at the University of Chicago during the early 20th century with Hazel Kyrk, Margaret Reid and Elizabeth Hoyt. Although they themselves were often critical of the ability of neoclassical theory to explain consumption and household decisions, for example because of the influence of advertising, their theoretical and empirical work was a key source of inspiration for the new home economics that was later developed at Chicago. Various Marxian scholars, sometimes called Marxist-feminists, also for an important exception as they looked at the household, and, in particular, how class and gender inequalities are similar and different, and interact with each other. A key insight from this literature is that class, as well as race, fundamentally alters the meaning and implications of gender, as later also emphasized by intersectionality scholars discussed in more detail with the topic ‘Inequality’. What being unemployed means is for someone’s career, family life and wellbeing, for example, highly different for men and women, but so for working and middle-class women.

A core argument of early Marxian thinkers, such as Bebel, Engels and Luxemburg, was that the gendered division of labour is not ‘natural’ and, instead, is socio-historical specific, being a core element of how the economy is organized. As such, they theorized that overthrowing capitalism would also result in the undoing of patriarchal institutions as well as class domination. Domestic labour was assumed to become increasingly commodified under capitalism and socialized under socialism. Raising and educating children would be done outside of the household by childcare and educational institutions, and housework would be done by communal facilities, rather than by women inside individual households.

## Teaching Materials

- Chapters & Papers:
  - Economics After The Crisis by Irene van Staveren, from 2015, chapter 2. This well-written textbook which in one chapter sets out the neoclassical, post-Keynesian, social economic and institutional perspectives on households.
  - Alternative Ideas from 10 (Almost) Forgotten Economists by Irene van Staveren, from 2021, chapter 5. This book emphasizes often ignored and neglected ideas and contains a chapter on the ideas of Barbara Bergmann on gender biases.
  - The Routledge Handbook of Heterodox Economics: Theorizing, Analyzing, and Transforming Capitalism by Tae-Hee Jo, Lynne Chester, and Carlo D’Ippoliti, from 2017, chapter 13. This broad and diverse book sets out a variety of theories on households.
  - The Handbook of Economic Sociology by Neil J. Smelser and Richard Swedberg, from 2005, chapter 27. This extensive and yet accessible book for non-sociologists, provides an impressive and useful overview of the field of economic sociology, including a chapter on the role of gender in the economy.
  - Gender ideology: Components, predictors, and consequences by Shannon N. Davis and Theodore N. Greenstein, from 2009. This review article discusses the literature on how ideas about gender come about and how influence people’s choices in the household and labour market.
  - “Never Intended to be a Theory of Everything”: Domestic Labor in Neoclassical and Marxian Economics by Therese Jefferson & John E. King, from 2001. This article summarizes the history of how unpaid housework was, and was not, treated in neoclassical and Marxian economics.
  - Unpaid Care Work: The missing link in the analysis of gender gaps in labour outcomes by Gaëlle Ferrant, Luca Maria Pesando and Keiko Nowacka, from 2014. This OECD paper discusses how gender differences in unpaid care work helps explain gender gaps in labour force participation, wages and job quality.
- Books:
  - Sociology of Families: Change, Continuity, and Diversity by Teresa Ciabattari, from 2016. This useful textbook introduces students to the vast sociological literature on families, with its different theories and aspects.
  - If Women Counted by Marilyn Waring, from 1988. This book is often regarded as a founding document of feminist economics as it drew attention to the ways in which unpaid labour and nature were generally ignored in economics and national accounts.
  - A Treatise on the Family by Gary Becker, from 1981. This influential book describes the neoclassical approach to households and gender differences.
  - Beyond Economic Man: Feminist Theory and Economics by Marianne A. Ferber and Julie A. Nelson, from 1993. This influential book introduces students the key ideas in feminist economics as well as describing its varieties.
  - Economics of Women, Men and Work by Francine D Blau, Marianne A. Ferber, & Anne E. Winkler, most recent edition from 2013. This textbook introduces students to mainstream and neoclassical

ideas and research on households and gender differences.

- *For the Family? How Class and Gender Shape Women's Work* by Sarah Damaske, from 2011. This book applies an intersectional approach to households by looking at how gender and class interact with each other and help explain observed patterns in behavior.
- *The Oxford Handbook of Women and the Economy* by Susan L. Averett, Laura M. Argys, and Saul D. Hoffman, from 2018. This impressive collection of essays covers many of the different aspects of the role of gender in the economy and focuses in particular on marriage, fertility and the labour market.

# Pragmatic Pluralism 8: Inequality

Inequality is a hotly debated topic both within economics as well as outside of it in other academic disciplines, in politics and in society at large. As such, there are also many dimensions and aspects of inequality to which various thinkers and activists have drawn attention to, from economic inequality based on class to gender and ethnicity, or race. Another key question is: inequality in what? Market or disposable income, wealth, power, influence, opportunities, happiness or health, to just name a few. A key question in the field is whether people are fairly rewarded for their work, or whether power differences prevent equitable remuneration. In short, whether market inequalities are fair or not. Another core question in the field is how different forms of inequality relate and interact with each other. Whether being a black woman, for example, is simply about adding up the effects of being black and female, or whether combinations have their own unique characteristics?

## Main opposing perspectives

- Marxian political economy: Exploitation
- Neoclassical economics: You get what you deserve

## Main complementary perspective

- Feminist economics: Intersectionality is crucial to understand inequalities

## Additional perspectives and insights

- + Post-Keynesian economics: Equity generally promotes efficiency
- + Austrian school: Social justice is a nonsensical idea
- + Other: Merit-driven inequality is socially undesirable
- + Behavioural economics: Inequality is relative, and mostly disliked
- + Complexity economics: Marx was right – there are two classes
- + Other: Piketty's  $r > g$

## Main opposing perspectives: Marxian political economy and neoclassical economics

A core debate about market inequality is whether it should be understood as being fair and meritocratic, or not. The former argue that individuals, at least in a capitalist, or market, economy, freely make deals with each other to make their lives better and in doing so are rewarded for their personal performance and successes. Others, however, argue capitalism is an unjust system in which hierarchical power relations force some to work for others, resulting in their exploitation. In sum, the argument is about whether capitalism is a system in which 'the pie' is fairly and widely shared, or whether it is a system that creates unparalleled wealth next to desperate poverty.

Marxian political economy: Building on earlier ideas, in particular classical political economy, Marxian scholars look at societies as being made up by socio-economic classes: "In ancient Rome we have patricians, knights, plebeians, slaves; in the Middle Ages, feudal lords, vassals, guild-masters, journeymen, apprentices, serfs; in almost all of these classes, again, subordinate gradations" (Marx & Engels, 1848, p. 2). In industrial capitalism, two classes are key: the capitalists, who own the means of production, and the workers, who have to sell their labour in order to make a living. And within these broad categories, one could also add more differentiation. Examples of old categories are the 'haute bourgeoisie', referring to bankers and industrialists, and the 'petite bourgeoisie', associated with small businessmen and white-collar workers. And a more recent example is the 'precariat', which is characterized by precariousness due to job insecurity, identity insecurity,

and a lack of control over one's own time because of workfare policies.

The core argument is that while workers seem to be free and engaging in voluntary transactions to benefit themselves under capitalism, they are not. Workers' labour is not truly voluntary as they do not have the means of production and thus are forced to sell their labour to capitalists, who do own the means of production, or else live in poverty and starve. These fundamentally unequal bargaining positions between employees and employers allow the latter to exploit the former, by appropriating part of the value employees produce. For the functioning of this capitalist system, it is crucial that the state and the law enforce the existing unequal distribution of private property. In Marxian thought, politics and the economy should therefore be seen as inherently intertwined, rather than as separate and unrelated social domains.

Among those who view market inequalities as unfair, there is a broad range of opinions on what should be done about it. These range from those who argue for redistributing income and social welfare programs to prevent extreme poverty, to those who advocate changing the economic structures that give rise to such unfair market inequalities in the first place, sometimes called predistribution.

Neoclassical economics: During the late 19th century, the young neoclassical approach tried to counter Marxian, institutionalist and other ideas which argued that capitalism is an unfair system in which workers are exploited. John Bates Clark in *The Distribution of Wealth*, for example, took it upon himself to prove scientifically that the market inequalities were justified and fair, rather than excessive and unjust. Clark argued that the market rewards the factors of production, including both capital and labour, equally to what they contribute to the production process, more precisely the market value of their marginal product. In other words, everyone gets their fair share based on their productivity.

To understand inequalities, one thus has to look at differences in talents and education, as these make people more or less productive. It can also be that the context changes and the market demand for certain types of skills has increased or decreased. To explain the rise in income inequality of the last decades, for example, neoclassical economists have argued that technological change has favoured higher educated workers relative to lower educated workers, also known as skill-biased technological change (SBTC).

Neoclassical economists have theorized that competitive markets would cause discrimination to disappear in the long run, as those who discriminate hurt themselves economically by forgoing the best market deals. Becker theorized that people could have a 'taste', or preference, for discrimination and are therefore willing to pay more for their 'preferred' groups than for discriminated groups. Another hypothesis is that discrimination is rational and non-biased market behavior as people have limited information and thus utilize all indicators they observe, even if they are imperfect. This theory of statistical discrimination argues it is too expensive, and often impossible, to treat everyone as an individual. As a result, people rely on statistics about groups to judge individuals. It should be noted that a key and controversial assumption in this approach is that discriminated groups are on average less productive and therefore generally treated as such, even though there are individual exceptions. In this way, statistical discrimination is thus an efficient way of dealing with information costs.

### **Main complementary perspective: Feminist economics**

A key insight of feminist scholars that has come to prominence in the late 20th century is that different forms of social and economic inequality intersect with each other and in doing so create unique combinations. This concept of 'intersectionality' was initially developed to better understand how it could be that the issues of black women in the US were more neglected than what one would expect if one would simply add the

gender and race factors. The feminist movement was largely dominated by white middle-class women and the civil rights movement, despite crucially relying on many leading black women, was spearheaded by male black leaders. As such, the idea came up that one should directly look at combinations of factors, the intersectionalities, rather than putting gender, race or class first.

In this perspective, inequalities are understood as overlapping systems of power with social identities that can be oppressing as well as empowering. A key related idea is that one's personal experiences and social position, one's 'standpoint', shape how one looks at and understands the world. According to this standpoint theory, social identities based on race, gender or class play an important role, but do not explain everything in an essentialist way as individual experiences can differ between people of the same social category. Nevertheless, it is argued that marginalized groups are in a unique position to enrich and improve our understanding of the economy because their perspectives and experiences have been underrepresented in economics. When one teaches or researches a topic, it thus is important to be aware of one's social position and acknowledge that others, and especially those with different standpoints, might observe different aspects of the topic at hand.

### Additional perspectives and insights

**Post-Keynesian economics:** Post-Keynesian economists have drawn attention to the macroeconomic effects of inequality. Poorer people spend a greater proportion of their income than rich people do, in jargon they have a higher propensities to consume. Because of this, growing inequality can be bad for growth as it can lead to a fall in consumer demand, which can only temporarily be prevented by expanding private borrowing. This chain of reasoning as well as various empirical studies have led numerous economists to argue that equity and efficiency can go together and strengthen each other. This is in contrast to the idea, prevalent among neoclassical and Austrian thinkers, that there generally is a trade-off between equity and efficiency, especially when it comes to government intervention in the private sector.

The different understandings of the economy lead to different policy conclusions. Marxian political economy is associated with overthrowing capitalism and eliminating class inequality all together, while (post-) Keynesian economics is often linked to the idea of saving capitalism with state intervention and redistribution to lessening inequality. Advocates of redistribution argue that it not only leads to fairer distributions of wealth and income, but that it also stimulates the economy by increasing demand. Furthermore, they argue redistribution is efficient because it reduces the social costs associated with high economic inequality, such as increasing physical and mental illnesses, social fracturing and polarization, increasing crime and drug abuse, increasing gambling and advertising expenditures, and decreasing educational performances and child development (Wilkinson & Pickett, 2009). Opponents of redistribution argue the government should focus its efforts on securing competition and free markets as these will ensure market outcomes are fair and efficient. Furthermore, they argue that inequality motivates people to behave productively and efficiently, as they see that economic success is rewarded with wealth. Finally, there are also neoclassical economists who argue that efficiency and distribution are entirely unrelated to each other, often referring to the second theorem of welfare economics which says that any distribution can theoretically come to an efficient (Pareto optimal) outcome.

**Austrian school:** Few argue against equality of opportunity, but various Austrian theorists, such as Friedrich Hayek in *The Mirage of Social Justice*, do. Hayek argued that market outcomes to a large extent depend on random factors and luck, and people their rewards can thus not be attributed to individual's performances, as neoclassical economists do. Nevertheless, he argues it is wrong to call market outcomes unjust, as he asserts that ascribing moral judgments to societal systems is mistaken and even 'primitive'. Modern capitalist

societies are characterized by a diversity of values, so the focus should be on protecting people's (market) freedom and (property) rights so that the (free) market can make everyone better off. The whole idea of social justice, in this perspective, is a 'mirage' and should be abandoned. If the government would try to ensure equality of opportunity, it would distort the otherwise efficient market allocation of resources and thereby leaving everyone, including the poor and disadvantaged, worse off than if the market would be left alone. Capitalism should thus be defended by emphasising its efficiency and not by claiming it to be, or trying to make it, a meritocracy, in which individual talents and effort rather than birth, determine success.

**Other:** This line of reasoning is in stark contrast to other critics of meritocracy, who argue that (large) inequalities of outcome are not desirable even if equality of opportunity would be ensured. Micheal Sandel in *The Tyranny of Merit*, for example, argues that meritocracy undermines social cohesion and causes social polarization. He criticizes the misuse of meritocracy to justify unequal outcomes by wrongly claiming people had equal chances. Educational outcomes, for example, are often used to claim vastly unequal outcomes are meritocratic and therefore just, despite the fact that a vast literature of research shows how educational outcomes are heavily dependent on socio-economic contextual factors and are thus not simply a reflection of individual merit. But Sandel's more fundamental point is that the ideal of meritocracy is flawed itself. Meritocracy, or just the idea of it, leads to a demoralising individualism in which the 'successful' develop hubris, believing their affluence is the result of their virtue, and the 'losers' are humiliated by making them believe their failure is their own fault. Rather than aiming for a (very) unequal society with social mobility based on merit, he argues we should strive towards a society in which everyone can have a good life and a recognized and respected role in contributing to the common good. According to Sandel, the corona crisis could set us in the right direction as it made us realize the social value of many low paying jobs which were deemed 'essential', from nurses and childcare workers to delivery workers and grocery store clerks.

**Behavioural economics:** Experimental studies consistently find that human beings are reciprocal in their behavior and have inequality aversion, sometimes referred to as social preferences. Most people favour 'fair' outcomes, even when it costs themselves something. Interestingly, research also finds that for people's happiness it is especially their income relative to their sociological reference group(s), rather than just its absolute level, that matters. Also in contrast to neoclassical theory, behavioural economists found that increased income only makes people happier up until one point, after which more income contributes very little, if anything at all, to one's happiness. Being poor, on the other hand, is found to have damaging effects on people's cognitive capabilities. Poverty consumes people's mental resources as they have to develop short-term survival strategies to cope with a hostile and stressful environment. This also helps explain why poor people, especially those who grew up as children in poverty, have higher risks of mental and physical illnesses and have more difficulty with long-term orientation and healthy behavior.

**Complexity economics:** Various economists and physicists, under the banner of complexity economics and econophysics, have applied methods from physics to study inequality. Trying to best describe empirical distributions with mathematical equations, the econophysicists came to a "two-class" theory of income distribution in which income coming from labour follows an exponential Boltzmann-Gibbs law distribution (thermal), and property income follows a Pareto power law distribution (superthermal). People have both forms of income, but for the bottom 97-99% of the income distribution labour income is most important and for the top 1-3% property income is critical. Furthermore, they found that while the income inequality within the bottom class of the distribution remains surprisingly stable over time, the upper tail is highly dynamic.

**Other:** Besides these empirical studies by complexity scholars, there have been many other recent empirical and data-driven studies of inequality within and between countries. The most famous of which is Piketty's

book 'Capital in the Twenty-First Century' in which he argues inequality is an inherent feature of capitalism that should be tackled through state intervention, and a global wealth tax in particular. A key argument in the book, which informs its main policy proposal, is that a core mechanism driving inequality is the fact that capital returns are persistently higher than economic growth rates ( $r > g$ ).

## Teaching Materials

- Chapters & Papers:
  - Economics: The User's Guide by Ha-Joon Chang, from 2014, chapter 9. This brief and accessible pluralist book contains a useful introductory chapter on inequality and poverty.
  - Economics After The Crisis by Irene van Staveren, from 2015, chapter 15. This well-written textbook which in one chapter sets out the neoclassical, post-Keynesian, social economic and institutional perspectives on wellbeing, poverty and wealth inequality.
  - The Economy by The CORE Team, from 2017, chapter 19. This successful textbook introduces students to economic inequality and key econometric findings about it.
  - Introducing a New Economics by Jack Reardon, Maria A. Madi, and Molly S. Cato, from 2017, chapters 4 & 5. This ground-breaking textbook introduces inequality and power and weaves together pluralist theory and real-world knowledge.
  - Capitalism: Competition, Conflict, Crises by Anwar Shaikh, from 2016, chapter 17. This impressive and extensive book compares multiple perspectives on many traditional economic topics and includes a chapter discussing complexity economics' and Piketty's insights on inequality as well as global inequality and underdevelopment.
  - The Routledge Handbook of Heterodox Economics: Theorizing, Analyzing, and Transforming Capitalism by Tae-Hee Jo, Lynne Chester, and Carlo D'Ippoliti, from 2017, chapters 9 & 21. This broad and diverse book sets out a variety of theories on distribution, inequality and poverty.
  - Alternative Ideas from 10 (Almost) Forgotten Economists by Irene van Staveren, from 2021, chapter 6. This book emphasizes often ignored and neglected ideas and contains a chapter on the ideas of Veblen, the founder of institutional economics, on inequality.
  - Neoclassical economists' theories of discrimination by Paula England, from 1994. This chapter sets out the various neoclassical models of discrimination.
  - Gender: An intersectionality perspective by Stephanie A. Shields, from 2008. This paper provides a brief introduction into intersectionality and focuses in more detail on empirical research on gender.
  - Toward a field of intersectionality studies: Theory, applications, and praxis by Sumi Cho, Kimberlé Williams Crenshaw, and Leslie McCall, from 2013. This article provides an overview of the various interpretations and applications of the concept of intersectionality.
  - Colloquium: Statistical mechanics of money, wealth, and income by Victor Yakovenko and Barkley Rosser, from 2009. This review article provides an overview of the econophysics and complexity economics literature on inequality and their key findings relating to exponential and power-law probability distributions.
  - A behavioral-economics view of poverty by Marianne Bertrand, Sendhil Mullainathan, Eldar Shafir, from 2004. This article sets out a behavioral approach to poverty by recognizing the importance of human cognitive limitations and contrasts this view with the ideas of the "culture of poverty" and hyperrationality.
  - Poverty impedes cognitive function by Anandi Mani, Sendhil Mullainathan, Eldar Shafir, & Jiaying Zhao, from 2013. This influential behavioral economic article investigates the effects that poverty has on cognitive and mental processes.
  - The enemy between us: The psychological and social costs of inequality by Richard Wilkinson and Kate Pickett, from 2017. This influential study provides a useful overview of the various

consequences of inequality, such as its impact on status anxiety, depression, narcissism, social cohesion, advertisement, and drugs, alcohol, food, gambling and shopping addictions.

- Sociological Perspectives on Racial Discrimination by Mario L. Small and Devah Pager, from 2020. This article summarizes the sociological literature and research on racial discrimination for economists and emphasizes the importance of institutions in explaining and understanding observed patterns.

- Books:

- The Economics of Inequality, Discrimination, Poverty, and Mobility by Robert Rycroft, from 2009. This book introduces students to the various economic aspects of inequality, helping them better understand its causes, mechanisms and consequences.
- Capital in the Twenty-First Century by Thomas Piketty, from 2014. A uniquely influential book on economic equality, looking at the issue from a long run and econometric perspective.
- After Piketty: The Agenda for Economics and Inequality by Heather Boushey, J. Bradford DeLong, & Marshall Steinbaum, from 2017. This collection of essays explores how the field of economic inequality should develop, drawing attention to issues such as modeling inequality, measuring wealth inequality, the causes of inequality, policy solutions, and interdisciplinarity.
- Anti-Piketty: Capital for the 21st Century by Jean-Philippe Delsol, Emmanuel Martin, & Nicolas Lecaussin, from 2017. This collection of essays from the libertarian think tank the Cato Institute, pushes against Piketty's ideas by arguing inequality has not grown, the rich are not rentiers and that taxation is the problem, not the solution.
- Global Inequality: A New Approach for the Age of Globalization by Branko Milanovic, from 2016. This book, written by the maker of the famous elephant curve of global inequality, helps students understand how inequality has developed both within and among countries, how it relates to globalization and what policies might be effective.
- The Rise and Decline of Patriarchal Systems: An Intersectional Political Economy by Nancy Folbre, from 2019. This book, written by a prominent feminist economist, how gender has and still shapes economies and how it (under)values care work.
- Intersectionality by Patricia Hill Collins and Sirma Bilge, from 2020. This book introduces students to the concept and history of intersectionality as well as its application to topics such as education, economic policy and globalization.
- The Code of Capital: How the Law Creates Wealth and Inequality by Katharina Pistor, from 2019. This influential book draws attention to the role of law in the economy and gives insight into how it shapes and impacts inequality.
- The Spirit Level: Why More Equal Societies Almost Always Do Better by Richard Wilkinson and Kate Pickett, from 2009. A best seller written by two epidemiologists investigating the relation between inequality and social cohesion, health, education, violence, crime and social mobility.
- The New Economics of Inequality and Redistribution by Samuel Bowles, Christina M. Fong, Herbert Gintis, & Ugo Pagano, from 2012. This book proposes a new approach to inequality drawing on recent insights on wealth inequality, behavioral economics and the negative consequences of inequality.
- Econophysics of income and wealth distributions by Bikas K. Chakrabarti, Anirban Chakraborti, Satya R. Chakravarty, Arnab Chatterjee, from 2013. This book sets out research and models on inequality developed by econophysists and complexity economists.

# Pragmatic Pluralism 11: Markets

Markets make up much of contemporary economies, organising more and more aspects of our lives. But how do markets function? Is competition between firms more like a gentle process of balancing, or a ruthless war of attrition? Do markets facilitate rational allocation, or are they more often defined by manipulation, norms, and power struggles? And how do markets relate to broader society?

## Main opposing perspective

- Classical political economy: Competition as a ruthless process
- Neoclassical economics: Competition as an optimal outcome

## Main complementary perspective

- Cultural approach: Markets are embedded in social structures

## Additional perspectives and insights

- + Behavioural economics: People can be manipulated
- + Austrian school: Markets excel at spreading information
- + Field theory: Market stabilisation through social and formal rules

## Main opposing perspectives: Classical political economy and neoclassical economics

There are two dominant perspectives on market competition. One view sees it as a harmonious outcome and the other sees it as a ruthless process. The static perspective (competition as an outcome) is mainly used by neoclassical and post-Keynesian economists, while the dynamic perspective (competition as a process) is mostly used by classical, Marxian, Austrian, evolutionary and complexity economists, as well as by business scholars. The neoclassical story starts from the Pareto-optimal perfect market, characterised by rationally self-interested behaviour of many buyers and sellers, complete secondary markets, perfect information and factor mobility, no market power, no transaction costs, and no externalities. If any firm is, however, able to acquire more profit than “normal”, then the neoclassical competition-as-end-state view assumes there is some imperfection in the market, otherwise economic “forces” would return the market to a competitive optimal equilibrium. Much of neoclassical economics is, therefore, devoted to solving these market failures, with dedicated fields such as industrial organization, environmental economics, game theory, information economics, organizational economics, and public economics. In the dynamic competition-as-war view, differing rates of profit are not understood as an imperfection, but as an inherent part of the rivalry and fighting between firms, which always creates winners and losers. Equilibrium and arbitrage in this dynamic approach are not realized at one point in time, but over time through periods of under- and overshooting.

Both approaches recognise how market competition can create economic prosperity, but do so in a different way. The static perspective emphasises allocative efficiency, which refers to the maximization of consumer utility. For this products have to be produced at the lowest costs possible and consumed by those who value them most. Neoclassical economists generally argue utility cannot be compared between individuals and therefore assume that the highest bidders are the one’s valuing the product most. The dynamic perspective, instead, emphasises dynamic efficiency, which refers to the reduction of production costs over time. The static perspective thus mainly focuses on consumer demand and elasticities, while the dynamic perspective draws more attention to innovation and the productive processes inside and between firms.

Within these two broad analytical strands, as well as within the various schools of thought, there are many

specific theories about how prices, costs and profits are formed. It is beyond the scope of this chapter, and most courses, to review and summarize each of these (for this see, for example, Dobb, 1975, and chapter 8 in Shaikh, 2016), so we will limit ourselves to a key example for both strands. A recent reformulation of the dynamic approach to understanding markets is provided by Shaikh (2016). He builds a broad range of ideas and research from Smith, Ricardo and Marx to Kalecki, Harrod, and Andrews, among others, and in doing so develops a labour, or cost-of-production, theory of value. Interestingly, he also builds on the insight of Becker (1962) that the key empirical consumption patterns, such as downward sloping demand curves, Engel's Law, and Keynesian type consumption functions, can be derived without assuming rational utility maximization and only requires two assumptions: that there is a budget constraint and a minimum level of consumption for necessary goods. Most microeconomics textbooks build on the neoclassical utility theory of value to explain prices, costs and profits (examples of microeconomics books). A key difference between the two approaches is whether prices are set so that marginal costs are equal to marginal revenue, profit is maximized and fluctuations in demand cause price fluctuations, as neoclassical economics assumes. Or whether competition forces firms to engage in price-cutting behavior, which is ultimately limited by production costs, as Shaikh argues.

### **Main complementary perspective: The cultural approach**

While the above perspectives focus on the internal workings of markets, economic sociologists investigate how markets are embedded in society. Rather than existing in an a-social vacuum, markets are constructed and maintained by socially situated human beings. In this way, markets and the state are not understood as each other's opposites or enemies, but as building on each other. Markets are social institutions that require government action to be created and expanded. Within economic sociology, social network analysts focus mainly on how social relationships influence market processes, while the cultural approach emphasises how economic practices are shaped by cultural norms and popular ideas.

A key insight of the cultural approach is that the boundaries and rules of markets are culturally determined. Cultural conceptions and moral values shape what we see as being appropriate to be bought and sold. A famous example of this is that life insurance only became culturally acceptable at the end of the 19th century after a prolonged marketing campaign by companies. Another important insight is that economics itself influences how we think markets should work. For example, auction theory is perhaps just as much about how auctions should work as how they do work. In the real world, auctions have become more like the neoclassical representations of them. This influence on the design of auctions comes either directly through the hiring of economists, or indirectly through the impact these ideas have on the thinking of business students. Economics as a discipline has therefore become crucial in various cognitive processes that in turn shape economic processes, creating difficult questions for the philosophy of science.

### **Additional perspectives and insights**

Beyond these three main perspectives, various schools of thought both inside and outside of economics add to our understanding of markets by providing specific insights.

Behavioural economists, mainly inspired by psychology, focus on studying how people behave in experiments. Here they found that, in contrast to neoclassical theory, people have cognitive limitations and are therefore bounded rational. This implies that we often make decisions which do not optimise our own utility and that we are susceptible to outside influences on our decision-making, whether that is by firms through marketing or by governments through nudging. In this way, behavioural economics is often seen as a 'positive' theory of how consumer behavior deviates from the neoclassical "rational maximizing model [which] describes how consumers should choose", which is taken as (normative) benchmark (Thaler, 1980, p. 39).

The Austrian school argues, on the other hand, that through the price mechanism, markets give us important information for economic coordination. Instead of seeing market decisions as easily misguided and manipulated, the Austrian view of markets is that they allow for collective wisdom. In fact, in this view the price mechanism is the only way in which so much local and subjective information can feasibly be collected and communicated.

Field theory's approach to markets, sometimes referred to as markets-as-politics and closely related to the cultural approach, focuses on how markets are built and structured through social power struggles. Markets are understood as meso-level social fields, arenas in which the game of jockeying for position constantly plays out. When organising markets it is necessary to create a stable order in which competition does not take destructive forms. This stabilisation generally comes about through an interplay between entrepreneurs and the state, which not only provides a general social and legal order but also is an active participant and regulator.

## Teaching materials

- Chapters & Papers:
  - *Economics After The Crisis* by Irene van Staveren, from 2015, chapter 5. This well-written textbook which in one chapter sets out the neoclassical, post-Keynesian, social economic and institutional perspectives on markets.
  - *The Economy* by The CORE Team, from 2017, chapters 8, 11 & 12. This successful textbook introduces students to the economics of market competition, rent-seeking, and market failures.
  - *Principles of Economics in Context* by Jonathan Harris, Julie A. Nelson and Neva Goodwin, most recent edition from 2020, chapters 17 & 18. This useful textbook, which pays particular attention to social and environmental challenges, contains two chapters on markets with and without power.
  - *Capitalism: Competition, Conflict, Crises* by Anwar Shaikh, from 2016, chapters 7, 8 & 9. This impressive and extensive book compares theories and empirics on many traditional economic topics including competition and prices.
  - *The Routledge Handbook of Heterodox Economics: Theorizing, Analyzing, and Transforming Capitalism* by Tae-Hee Jo, Lynne Chester, and Carlo D'Ippoliti, from 2017, chapters 25 & 35. This broad and diverse book sets out a variety of theories on labour processes and full employment.
  - *Alternative Ideas from 10 (Almost) Forgotten Economists* by Irene van Staveren, from 2021, chapter 9. This book emphasizes often ignored and neglected ideas and contains chapters on the ideas of Adam Smith on the abuse of markets.
  - *The Handbook of Economic Sociology* by Neil J. Smelser and Richard Swedberg, from 2005, chapter 11. This extensive and yet accessible book for non-sociologists, provides an impressive and useful overview of the field of economic sociology, including a chapter on markets.
  - *The Microeconomics of Complex Economies: Evolutionary, Institutional, Neoclassical and Complexity Perspectives* by Wolfram Elsner, Torsten Heinrich, and Henning Schwardt, from 2014, chapters 5-7. This innovative textbook makes readers familiar with new insights coming from frontier mainstream economic research, with three chapters devoted to the neoclassical theory of markets as well as critiques and how the real world deviates from it.
  - *Classical vs. Neoclassical Conceptions of Competition* by Lefteris Tsoulfidis, from 2011. A useful article introducing students to the two main opposing perspectives on markets: the dynamic process view and static equilibrium view.
  - *Varieties of Field Theory* by Daniel Kluttz and Neil Fligstein, from 2016. This chapter introduces students to field theory and its understanding of markets by providing an overview of its different

strands.

- Markets as Politics: A Political-Cultural Approach to Market Institutions by Neil Fligstein, from 1996. This influential article sets out core ideas of the field theoretic approach to markets.
- Irrational behavior and economic theory by Gary Becker, from 1962. In this classic article, Becker, a key prominent of neoclassical economics, shows how many key empirical microeconomic patterns derived without assuming rational utility maximization.
- Toward a positive theory of consumer choice by Richard Thaler, from 1980. In this influential article, Thaler, a leading behavioural economist, argues we should understand neoclassical theory as being normative, describing how people should behave, and behavioural economics as providing a descriptive theory of how people actually do behave.
- Books:
  - The architecture of markets: An economic sociology of twenty-first-century capitalist societies by Neil Fligstein, from 2001. This book introduces students to the field theoretic approach to markets, paying particular attention to institutions, employment systems, corporate governance and globalization.
  - The Social Structures of the Economy by Pierre Bourdieu, from 2000. This book presents an extensive and detailed analysis of the French housing market followed by a short introduction into the field theoretic approach to studying markets.
  - The Great Transformation by Karl Polanyi, from 1944. This classic describes the history of markets and its social embeddedness.
  - Do Economists Make Markets? On the Performativity of Economics by Donald MacKenzie, Fabian Muniesa and Lucia Siu, from 2008. This influential collection of essays gives an introduction and overview of the literature on performativity and analyzing markets through a cultural lens.
  - Economic Lives: How Culture Shapes the Economy by Viviana Zelizar, from 2010. This book brings together the literature using a cultural approach to understand the economy and markets, discussing issues related to pricing, money, intimacy, care and commerce.

# Building Blocks: Overview

The meat and bones of the Economy Studies course design method are the ten building blocks. Each of these building blocks covers an area of knowledge or a skill that we see as essential for the education of future economists. They can be used as templates to create courses, of generally six to ten weeks each. One can also pick and choose elements of the different building blocks to combine them into a broader course, or split up a building block into several courses.

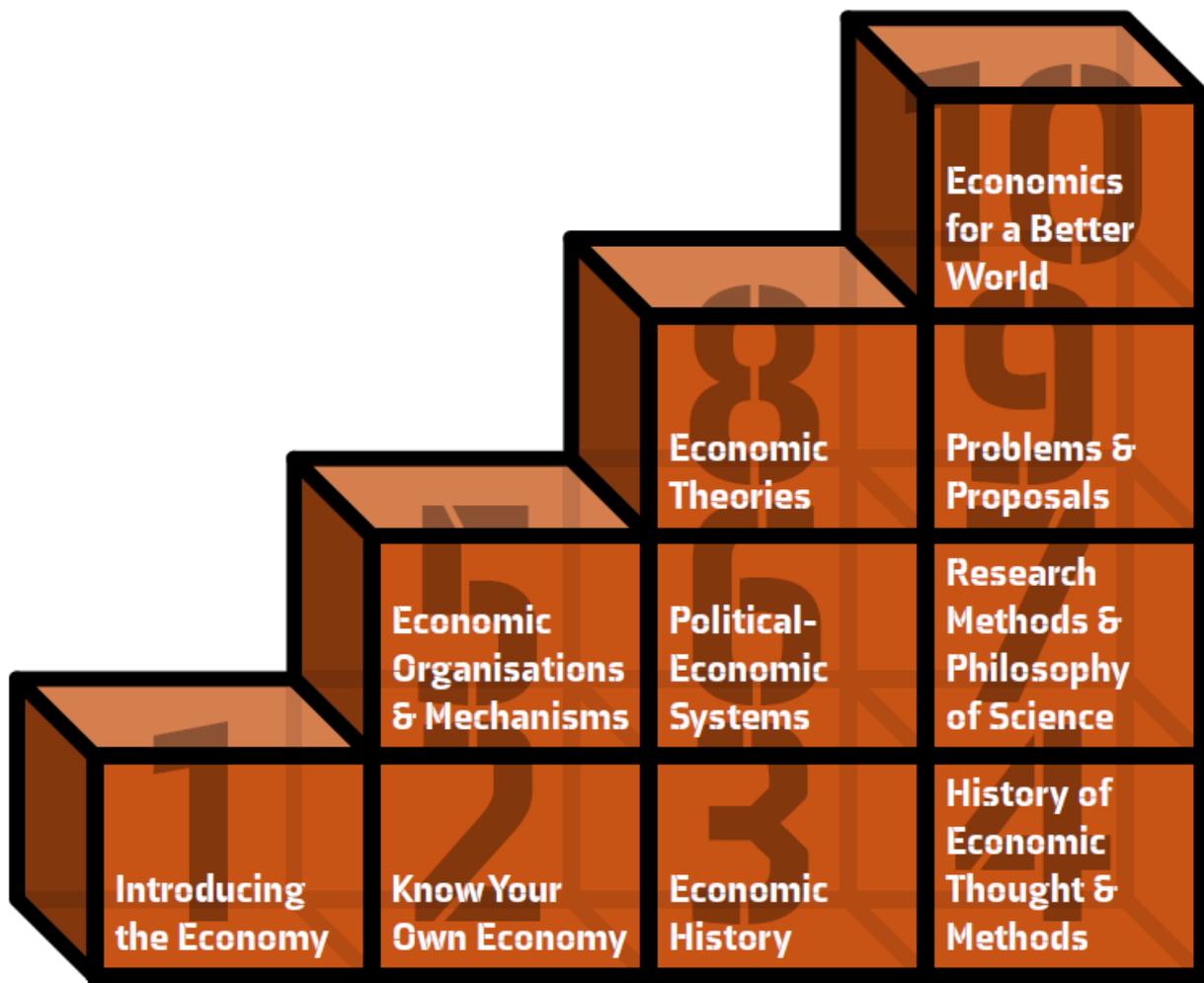


Figure 1: The ten building blocks that form the core of this book. The order of the numbers is not necessarily the order in which they should be taught. Their relative size varies, with building blocks 7 and 8 generally taking up much more space than the others.

The first two building blocks focus on helping students to develop a feeling for economic matters and teaching them basic conceptual and real-world economic knowledge. *Building Block 1: Introducing the Economy* discusses the definition and relevance of ‘the economy’ and how it is related to other aspects of the social and physical world. *Building Block 2: Know Your Own Economy*, explores actual national and local economies and their structures, institutions and sectors.

With this basic knowledge in hand, we explore the history of economic thought and of the real-world economy. *Building Block 3: Economic History* explores the fascinating and diverse history of economic events and developments. *Building Block 4: History of Economic Thought & Methods*, in contrast, is about the remarkable

and complex history of ideas about the economy. Together, these chapters provide a crucial foundation for students' further education.

Besides knowing basic economic concepts, facts and history, it is key that economics students learn how economies can and have been organised, at micro-, meso- and macro-levels. *Building Block 5: Economic Organisations & Mechanisms* investigates the different forms of economic interaction and organisation that operate at each level and together make up an economy. *Building Block 6: Political-Economic Systems* reviews the complex structures, institutions and power relations that form the overarching structure of an economy.

Another core element of a good economics education is a broad and diverse analytic toolkit, filled with relevant methods and theories. *Building Block 7: Research Methods & Philosophy of Science* is about both quantitative and qualitative data collection and analysis methods. In *Building Block 8: Economic Theories* we propose a 'pragmatic pluralist' approach to teaching theories by focusing on only the most important insights for every topic. These two building blocks will likely take more space in most programmes than the others, as the centre of gravity of an academic education lies in methods and theories.

The last two building blocks are largely concerned with the productive application of economic ideas in the real world. Economics education should be preparing the economic experts of tomorrow for their future roles in society. *Building Block 9: Problems & Proposals* deals with the practical skills necessary for the work of almost all economists: analysing real-world problems and working on proposals to address them, whether in a company, government agency, think tank or academic department. *Building Block 10: Economics for a Better World* deals with the values involved in decision making, asking what normative principles and visions can guide actions to address the major challenges of our times.

# Building Block 5: Economic Organisations & Mechanisms

**The different economic organisations and mechanisms – how market, hierarchical, communal, associational, familial and cooperative forms together make up the economy.**

*What:* This building block discusses the different ways in which economic processes can be organised. These are the different ways in which people determine how to allocate the limited time and resources available, how to work together to create economic value and subsequently how to distribute it. The focus of this building block is on making students familiar with the variety of organisational forms and ways of interacting with each other that shape how our economies work.

*Why:* Without an understanding of the variety in the organisations and mechanisms that exist it is very difficult to grasp how an economy works and misunderstandings arise easily. A better grasp of the different ways in which economies are organised will also enable students to think openly, accurately and critically about any proposal to reshape economies.

*Contrast with current programmes:* Many academic programmes currently focus on markets. Additionally, even when the topic of study is not a market, it is often understood as if it were a market. This causes students to find it hard to think in ways that do not follow market principles. Upon studying a problem, the natural inclination of many economists is to introduce a market or correct a market failure. However, this causes (policy) recommendations to have a one-size fits all tendency, and causes many parts of the economy to be unstudied or misunderstood. We therefore encourage introducing and defining a wider range of economic organisations from the start, as well as the different coordination and allocation mechanisms that exist between and within them, examining where they occur, how they differ from each other and how they interrelate.

## **Sections:**

- 1** Forms of Economic Organisation
- 2** Coordination & Allocation Mechanisms
- 3** Practical Suggestions

*“The economy is much bigger than the market.”*

Ha-Joon Chang (2014, p. 456)

Economies consist of many different types of organisations, ranging from multinational corporations to groups of volunteers caring for the elderly, and from small cooperatives to state-run infrastructure companies. Within and between these organisational structures, we find different coordination and allocation mechanisms, such as market transactions, hierarchies, commons, networks and reciprocity. These are all different ways in which people organise themselves to create value – whether monetised or not. Differences in both aspects, the organisational forms as well as the different coordination and allocation mechanisms, yield micro and meso level variations in how an economy is structured and functions.

Among all these economic forms, most contemporary economics programmes focus almost exclusively on market mechanisms. We suggest widening the scope, to include the large real-world variety of economic organisations and mechanisms. Without knowledge of how economic activities are organised, it is virtually impossible to understand how economies work or to give good advice for economic decisions. To be sure, we are not suggesting taxonomy or classification for its own sake. We argue for a better understanding of economic processes by conceptualising the wide diversity in forms.

This building block is closely linked to the next, Building Block 6: Political-Economic Systems, as they both focus on the different ways in which economies are organised. However, the current building block focuses more on micro and meso patterns, looking at the various ways in which specific processes can be organised, coordinated and allocated. The next building block has a more macro focus on economies as full systems with complex networks of organisations and mechanisms.x

## 1 Forms of Economic Organisation

Economic systems, like natural ecosystems, are made up of many different forms. Looking around us, we see a large variety of private businesses, cooperatives, governmental organisations, households and forms of non-profit organisations, most of which also exist in informal varieties. These social constructs vary amongst others on the following aspects, which in turn will vary by country:

- Legal form (as defined by the state);
- Main motive or purpose (profit or non-profit);
- Type and number of owners and transferability of ownership (tradable shares, private owners or state);
- Funding (sales, taxation, donations);
- Power structure (centralised or decentralised);
- Size (individual, small, medium, large);
- Geographic scope (local, national, international).

The universal system of taxonomy that biologists use to identify the different species of the natural world does not have an equally well-structured counterpart in economics. Fortunately, becoming familiar with this diversity does not always require much analysis, but it does require looking with an open perspective. To grasp the different forms of economic organisation that exist, students can simply look at the world around them, perhaps using something like the above list of variables. This list is not an existing theoretical framework; we put it together

for this building block, and the relevant variables would differ depending on the purpose of the investigation. We will now briefly review the main categories of economic organisations that can be distinguished.

Private businesses are perhaps the most visible type of economic organisations and come in all shapes and forms depending on amongst others ownership (who is the owner and how easily is ownership transferable such as on the stock exchange), their size and whether they act locally, nationally or internationally. Corporate businesses for example are large complex legal entities, owned by shareholders (often anonymous underneath a certain threshold and whose shares are freely tradeable) and run by managers. Their employees may be organised through trade unions in order to increase their bargaining power and have a voice in how the company is run. In many countries, large corporations are also required by law to have worker representation on corporate boards. Next to corporate businesses, there are various other forms of private businesses. Many companies are privately owned by a family, a partnership or a sole proprietor. It should be noted that family firms are not always small: the ALDI supermarkets, Tata Steel, Koch Industries and Dell are all majority-held by their founding families.

Cooperatives are run in a more direct democratic manner: not by shareholders but by their workers, customers, consumers and/or other stakeholders. These too come in many forms and sizes, ranging from small grocery stores to the Basque giant Mondragon. In worker cooperatives, such as Mondragon, the people who work at the company determine how it is run. Consumer cooperatives, on the other hand, are owned and managed by customers. These have been especially important in retail and finance such as The UK Co-operative Group and the Swiss Migros. Producer cooperatives have been particularly prevalent in agriculture, as they allow relatively small farmers to achieve economies of scale together. Recently, the idea of multi-stakeholder cooperatives has become more popular, with the aim to give all relevant groups a voice and seat at the table: from consumers and workers, to producers, investors and members of the local community.

Next to such formal forms of economic organisation exists a large variety of informal organisations, which together are generally referred to as the 'informal economy'. This includes all economic activity that is not fully grounded in the legal structures of the state. In the western world, this is relatively limited to particular sectors such as unregistered housekeepers and illegal drug trade networks. In many developing countries, on the other hand, the informal economy covers vast parts of economies. There are various myths surrounding the term, as it is often associated with 'black' markets and 'underground' activities. One should, however, realise that the majority of workers in the world, 61% in 2018, earn their living in the informal economy (ILO). It is not some backwater shadow world, but rather says something about how far the formal systems of state reach.

Most textbooks discuss government mainly as a rule maker, an arbiter and a mechanism of redistribution. While the formal regulations of the state cover only a relatively limited part of the economy in much of the developing world, states are in virtually every country highly important economic producers themselves. The public sector often contributes around half of GDP and government agencies conduct massive amounts of economic activity themselves: running hospitals and clinics, schools and universities, the military and police, infrastructure, energy and water systems, and state-owned enterprises in many other sectors.

Another core form of economic organisation is the household. While individually, households are fairly small, in sum they are an enormous part of economies. Think of all the unpaid labour, such as care work and housekeeping, that is coordinated and performed inside households. Estimates suggest that household activity may even amount to about half of all economic activities (OECD, 2018). Students should note that the structures and functions of households are different from place to place and from time to time, from the

stereotypical nuclear family to single-parent but also extended families. A look at the current situation in terms of household structures in the country can be useful and interesting for students.

Finally, there are also various civic non-profit organisations, such as charities, foundations, community groups, and voluntary associations, which receive donations to work on some cause and/or function on the basis of voluntary unpaid work. Recently, the line between non-profit and for-profit has become more complicated with the rise of social enterprises, which in varying complex ways combine social and commercial goals. There are also many civil society organisations, or non-governmental organisations (NGOs), trying to influence governmental policies. Commercial corporations are again key here, as private business through employers' and trade associations are the most powerful interest groups in many countries.

All the above descriptions refer to very large categories and there are many differences within them. Letting students choose more than one case of each category to look at or analyse can therefore be very useful, as it will show them how companies can be legally very similar yet function very differently in practice. Useful materials to teach about economic organisations in an accessible way are: *Introducing a New Economics*, *Economics: The User's Guide* and *Organisations: A Very Short Introduction*.

The study of these different organisational forms is not merely an intellectual pastime. The same product or service can be produced by very different types of economic organisations, and this often has far-reaching consequences for all stakeholders, from workers and investors to suppliers and consumers, as well as broader society and the natural environment. A concrete example from the Netherlands: when private equity started buying up child care organisations and transforming their internal organisation, from their services, labour arrangements and scheduling practices to their real estate ownership and lease structuring, this had serious consequences for the way they functioned, sparking societal and academic debate (Dutch Government, 2020; Dutch Parliament, 2019; Roosenboom, 2020; Van Bussel, 2020; Van de Weijenberg, 2018).

## 2 Coordination & Allocation Mechanisms

The previous section discussed fairly straightforward typologies of economic organisations: forms into which people organise themselves. This section focuses on the more complex underlying coordination and allocation mechanisms between and inside these organisation forms, which decide how people and organisations allocate their time and resources. The two most known of these are market transactions and hierarchical redistribution. There are, however, multiple other mechanisms that, despite their importance in real-world economies, have received less academic and popular attention. These include commons, networks and reciprocity. Students should become familiar with these different ways in which people interact economically with each other in order to understand how economies work.

### Markets and Hierarchies

Markets are currently at the core of economics education, and for a good reason, as markets are highly important for how economies operate today. However, due to an abstract theoretical and mathematical approach, relatively little attention is paid to the exact forms that markets take in the real world. Not every market is the same, as markets are made out of social rules and practices that vary from place to place and from time to time. The economic sociology of markets and game theoretical field of mechanism design, in particular, have focused on the concrete ways in which markets are and can be structured. Markets allocate time and resources based on price, money, competition and individual gain. We suggest letting students study examples of different real-world markets in different contexts, identifying the actors, how they are organised and how they interact, so that they can better understand how markets function.

Hierarchical distribution allocates time and resources based on fixed roles and formalised lines of command. It is typically associated with public sector and state entities, but it is also the way in which many organisations within the private sector are organised internally. Although the number of self-employed people has increased over the last decades, most economic activity in the private sector still takes place within hierarchical organisations: private bureaucracies. This form is not restricted to large organisations. Small organisations can also function on the basis of hierarchical distribution. The key differentiating factor from the market is that decisions within such an organisation are made between people based on hierarchical interactions and not based on the price mechanism.

Similarly, entrepreneurship exists both within the private and public sector and small and big organisations. Change and innovation do not only come from small private start-ups. Big organisations, public and private, often play key roles in creatively developing new products and processes, and changing economic structures.

The interactions between markets and hierarchies are many and complex, as we already noted that many market actors, such as private businesses, are internally organised as hierarchies. Indeed there are various combinations and variations between hierarchical bureaucracies and markets which make the study of organisations so fascinating and important. Simplistic dichotomic notions of public versus private and big versus small are not likely to improve our understanding of how these dynamics play out in reality. Therefore, we suggest exposing students to this wide variety of hierarchies and how they can function.

### **Other Mechanisms: Commons and More**

Besides the mechanisms of the market and hierarchy, there are various others that often get less attention than they deserve, given their importance in real-world economies. There are multiple theoretical conceptualisations of these other coordination and allocation mechanisms amongst which commons, reciprocity, gift economies, associations, networks and householding. The coordination and allocation may be done based on social relationships, trust, group identity, norms or shared practices. Compared to markets and hierarchy, these mechanisms are often somewhat more symmetrical and norm- or culture-driven. Contemporary Capitalism: The Embeddedness of Institutions gives a useful overview and introduction into a wide variety of economic mechanisms, from markets and public and private hierarchies, to communities, associations and networks.

How do these coordination and allocation mechanisms function? Here we take one example: the commons. In the online resources we provide a brief literature overview of other mechanisms, such as reciprocity, gift economies, associations, networks and householding, accompanied with suggestions and teaching materials for more in-depth courses on economic mechanisms.

Over the last decade the commons have received increasing attention. The term describes situations where resources are held in common by a community which governs them through informal norms and social practices. Traditionally, the concept has been associated with natural resources such as grasslands, fisheries, forests and irrigation systems. Recently, the concepts of the digital, urban, cultural and knowledge commons have gained prominence.

There are two main academic approaches to the commons. First, commons are analysed to determine why and how they can fail, centred on the idea of The Tragedy of the Commons popularised by Garrett Hardin in a paper in 1968. A second strand focuses on how they can succeed, centred on Elinor Ostrom's empirical body of work. Ostrom (1990) found that institutional arrangements largely determine the success of shared resource

management resources, requiring the following:

- 1 Clear boundaries regarding users and non-users and which resources are concerned.
- 2 Appropriation and provision rules are adapted to local conditions
- 3 Most people affected by the arrangements are able to participate in creating and changing its rules
- 4 The appropriation and provisioning, as well as the conditions of the resources, are monitored
- 5 Sanctions for rule violations start very low but become stronger if a user repeatedly violates a rule.
- 6 Mechanisms allow conflicts among users or with officials to be quickly and locally resolved at low costs.
- 7 Higher-level authorities recognize the rights of local users to make their own rules.
- 8 When connected to a larger economic system, governance is organised in multiple nested layers

Going beyond the notion that resources necessarily need to be managed by either the state or the market, Ostrom points out multiple other possible solutions that rely on voluntary self-governing. The point here is not that markets and states are not important, it simply means they are both part of larger governance structures, which she calls polycentric, in which commons also play important roles.

Rather than debating which mechanism in general is superior, she argues we should be more open-minded and consider the diversity in ways in which decisions about time and resources are made. We should look at specific cases with their own characteristics and contexts and analyse which (combinations of) mechanisms, and especially which design rules, lead to successes. In other words, rather than trying to simplify the world, we should recognise its complexity and learn about the many ways in which economies can be (more and less successfully) organised.

Coordination & Allocation Mechanisms elaborates upon this overview of the commons as well as the other mechanisms of coordination and allocation by examining them from three perspectives: economic anthropology, social systems of production and new institutional economics. We show how these three are connected, how their focus differs and offer suggestions on how to use them in teaching this material.

[economy.st/backgroundbb5](http://economy.st/backgroundbb5)

### 3 Practical Suggestions

Below we describe four suggestions to consider when teaching economic organisations and mechanisms. First, treat forms both as analytical concepts and in their real-world expressions: always use examples. Second, start with basic explanations of individual static forms and move towards discussions of dynamic and interacting forms. Third, in specialised courses, showcase the different ways of organising surrounding that topic, such as different labour, financial or tax systems. Fourth, distinguish analytical description from normative evaluation of forms.

First, treat economic organisations and mechanisms both as concepts and as real-world phenomena. Forms of economic organisation (companies, non-profits, etc.) are easily spotted in the real world, and this can make for interesting student assignments. As for the different coordination and allocation mechanisms (hierarchy, the commons, market mechanisms, etc.), they can be quite difficult to grasp. So it might be useful to first discuss the concepts with the help of some clear examples of different mechanisms with students. Nevertheless, it is also important for students to learn how to see these forms in the complex real world around them.

An exercise for this could be to let students record the different mechanisms they themselves engage in on a day. A student might wake up and first make breakfast for him- or herself, an example of householding. Subsequently, they might go on public transport to university which is organised through hierarchical organisations of the state, partially funded by taxation. On their way, they might look up the topic of today's class on Wikipedia, a commons. In class, they might help out a friend by lending him or her a pen – reciprocity. For lunch, they buy a meal at a local cafeteria, a market transaction with a formal private business. In the end of the afternoon, they might go to the student sports club, a voluntary association. As a side job, in the evenings they tutor their neighbour's son in mathematics, an informal private business.

A more extreme exercise to make students understand the roles of these mechanisms in economies, would be to give them the assignment to avoid using one mechanism for a day. This could be done once, or multiple times to let students experience it with different mechanisms. How would a day look without being able to buy or sell anything? Not following any instructions from a superior or giving them yourself (please, only on the weekend). Or without being able to reciprocally receive and return favours (not for too long, or everyone will hate you)? And perhaps most impossible of all, without doing any householding and self-care activities? The goal here is not that students strictly adhere to the exercise, but that they realise the prevalence of each of these different economic mechanisms.

For a less extreme exercise, let students describe what life would look like if they were to avoid one particular type of economic coordination mechanism. Different groups could be assigned different mechanisms, and afterwards, groups could debate what mechanisms are most vital to our economic organisation. Our second suggestion: start simple and move to more complexity. To help students get an idea of the different organisations and mechanisms, it might be useful to start with isolated and static descriptions: “This is the concept of a multinational, and here is an example. This is the concept of a commons, and here is an example.”

Reality is, however, of course more complex. In the real world, organisations and mechanisms do not exist in isolation from each other but do interact in various complex ways. They might strengthen each other but they might as well undermine each other. Furthermore, things change over time. For example, elderly care might first be organised through households and religions organisations, but later through various state organisations and, after that, privatised to for-profit companies.

Understanding how some economic activities and resources move from one form to another is at the core of understanding economic change. Our advice is to start with isolated static mechanisms and, when possible, move to more complex discussions about how they interact with each other and change over time.

Our third suggestion: when teaching a specific topic, such as finance, labour or fiscal policy, use the same logic. Showcase different ways of structuring economic life. Say you are teaching a course on financial economics. This could include an overview of the highly different kinds of financial organisations: such as commercial and investment banks, public investment banks, credit unions, hedge funds and green banks. It could also include an overview of various mechanisms. For instance, the different financial systems such as a gold standard, fiat money, the international Bretton Woods system and, recently getting more attention, crypto-currencies, full reserve banking and central bank digital currency. The same could be done for various labour arrangements in labour economics courses, or for tax and government systems in public economics, etc.

Fourth and finally, it is important to distinguish normative evaluation as much as possible from the analytical

description of organisations and mechanisms. Both are relevant for students to learn about, but mixing them can be very dangerous, so we suggest being explicit to students about whether the focus is on description or normative evaluation. Furthermore, we think it is helpful to start by giving students an analytical and real-world understanding of the different ways of organising, before going into the normative judgements about them (which is at the core of the final building block of this book, Building Block 10: Economics for a Better World).

This approach is somewhat opposite from the currently prevalent approach, which starts from a normative assumption and subsequently goes into analytical descriptions. How so? Many current programmes start by explaining to students that markets, if they are ‘perfect’, lead to optimal outcomes. Much of the subsequent programme then consists of learning analytically how these optimal outcomes, sometimes also referred to as ‘competitive equilibria’, do or do not come about, with the help of neoclassical models. Later, the state often comes in as a possible solution for market imperfections, although students are also taught to look out for government failures in such cases.

While this approach teaches students many valuable lessons, it can give students the impression that markets (sometimes accompanied by an interventionist state) are a priori desirable and superior compared to other mechanisms. We firmly believe that learning to think independently and critically is at the core of academic education. Therefore, we think it is important that programmes expose students to a wide variety of positions and analytical ideas, as opposed to teaching a single main perspective or starting point, with the danger of (unintentionally) instilling normative beliefs into students.

The point is not that the neoclassical answers to questions about economic mechanisms are false. It is rather that they are only one set of possible answers to complex normative and analytical questions. We therefore advise to expose students to these different sets of answers and help them to critically scrutinize the philosophical arguments and empirical evidence that underline them.

Furthermore, we think it is important to pay attention to the complex and often nuanced nature of arguments and positions. We would not suggest assigning students to write an essay or debate about which mechanism they think is superior. Rather, students might be given specific cases to analyse and argue about how they can best be tackled. This could require students to suggest combinations of mechanisms and organisational forms to address the real-world problem. The degree of nuance and complexity of such an assignment would depend on the level of the student or class.

## Teaching Materials

- *Introducing a New Economics* by Jack Reardon, Molly S. Cato, Maria A..C. Madi, from 2018, chapters 10, 11 & 12. Three accessible and brief chapters, with accompanying classroom activities and questions, introducing students to what public goods, commons and firms are and how they can be governed, for example as a corporation owned by shareholders or as a cooperative owned by its workers or consumers.
- *Economics: The User’s Guide* by Ha-Joon Chang, from 2014, chapter 5. A short well-written chapter on different economic actors and organisational forms, from multinational corporations, cooperatives, and labour unions, to governments and a variety of international organisations.
- *Organisations: A Very Short Introduction* by Mary Jo Hatch, from 2011. A brief, accessible and yet highly informative book full with scientific theories and ideas on what organisations are, how they can be structured, how they change, and their internal dynamics and interaction with markets and society.
- *Governing the Commons: The Evolution of Institutions for Collective Action* by Elinor Ostrom, most recent

edition from 2015, chapters 1, 2 & 3. A sharp and rigorous discussion of commons, how they are different from markets and hierarchies, how we should theorize them and real-world examples that help us better understand how they can be successful.

- Contemporary Capitalism: The Embeddedness of Institutions by J. Rogers Hollingsworth and Robert Boyer, most recent edition from 2012, chapter 1. An instructive analytical introduction and overview of different coordination and allocation mechanisms, such as markets, public and private hierarchies, networks, communities and associations.

The website provides a wider range of teaching materials for this building block.  
[economy.st/bb5](http://economy.st/bb5)

# Conclusion

In this concluding chapter, we briefly review what this book has offered and then look ahead, offering practical suggestions and ideas for economics teachers and professors, programme directors and students.

## 1 A New Vision for Economics Education

Our rapidly changing world is faced with many economic challenges, such as increasing debt levels, staggering inequalities and serious forms of ecological breakdown. These challenges are complex and cross multiple dimensions of our social and natural systems. To face these troubles, therefore, it is not nearly enough for economists to hold knowledge in formal, theoretical abstractions. Whilst these may be sophisticated, they only reflect a fraction of what is actually going on in the real world. We need broadly-trained economists with an understanding of the real-world economy. We need economists who know for example how the main industries work, who can grasp the interfaces between state and corporate systems and who see how economies are embedded in the society and ecology at large.

This requires open minds which can look at issues from a variety of perspectives. Given the multifaceted nature of economic systems, no single theoretical framework or methodology can answer all questions, or capture all of its dimensions and mechanisms. Instead, economists need the ability to think critically and evaluate the appropriateness of a range of fundamentally different approaches. In doing so, they also need to be able to clearly distinguish and explicitly discuss the moral dilemmas and normative trade-offs involved in economic decisions.

This book sets out a concrete path towards building such a pluralist and real-world based economics curriculum. While we envision a large diversity of possible economics programs, we suggest that all programs would be improved by following these three organising principles: a pluralist toolkit of theories and methods, sufficient real-world economic knowledge and practical skills, and active training in the consideration of moral and social questions. To flesh out these principles, we propose ten concrete Building Blocks: practical material for the creation of courses. These Building Blocks include introductory material, history of economic thought and reality, forms of economic organisation, research methods, theoretical approaches, normative ideas, practical skills and knowledge of the real economy.

The entire book carries a CC-BY creative common licence, meaning that any part can be freely used, redistributed, or built upon without restrictions. We encourage people to make use of this and apply, edit and adapt the material for their own purposes.

What kind of graduates would a program based on these ideas and materials produce? It is important to acknowledge that they would not have all the skills that current-day graduates have. They would have less mathematical sophistication, less expertise in econometric analysis, and less knowledge of neoclassical theory. In exchange for this, students would gain a deeper understanding and more concrete knowledge of the economy they will live and work in. This includes:

- An understanding of the linkages between the economy, the environment and society.
- The ability to analyse different types of economic topics and problems, by using a variety of theoretical and methodological approaches.
- An integral understanding of how various smaller mechanisms make up larger economic systems.

- Practical skills for investigating and resolving questions of economic policy: both understanding the context and choosing the right tool.
- The ability to argue morally as well as analytically, and to clearly distinguish the two.

In short, such programmes would produce academically-trained professional economists: broad thinkers and practical scholars, rather than students who are trained to write academic research papers.

## 2 Change Is Necessary and Possible

It will not be easy to build such programmes. We fully realise that these changes cannot be introduced overnight. Surprisingly rare is the academic economist who can teach even a basic introductory course on their national economic sectors and institutions. The structure of the discipline - highly internationalised, methods-centred and organised around a single pyramid structure of journals - does not facilitate the creation of such knowledge. The same applies to pluralism in economic theory: the decades-long marginalization of valuable schools of thought has left us with a dearth of suitably trained academics.

In addition, academic programmes tend to have a strong path-dependency. Most are only updated infrequently and changed piecemeal. Long-running courses have to be adjusted, the order of courses stacking on top of each other has to be reconsidered, new courses have to be developed and new expertise has to come into the economics departments. In many countries, national or international frameworks regulate academic programme content. In short, this is a long road, but one that we believe is both necessary and possible.

The changes we propose are necessary. The devastating impact of our economy on the life-sustaining ecological systems of this planet is increasingly visible, making the realistic study of that economy all the more urgent. The unprecedented centrality of the economy in our society and the big role of economic ideas in political decision-making make it all the more vital for economists to be firmly rooted in the real world, to have a pluralist perspective and to be trained in distinguishing the moral tangles inherent to economic questions. We need to prepare a new generation of economists, and we should start this work now.

And the changes we propose are possible. Indeed, they are happening, thanks to the energy of a growing worldwide network of students and academics. More and more pluralist and real-world textbooks, course formats, readers, best practices and other materials are becoming available (see the online *Teaching Materials* resource chapter for many examples). Increasingly, faculties are teaching economics primarily as a subject-based pluralist discipline, rather than a method-centred monist approach. Economic faculties are hiring academics from other theoretical schools and other disciplines, thus reversing the narrowing of the past decades and enriching both students and colleagues with fresh insights. Various universities are starting to experiment with teaching-based career tracks, enabling staff to focus on developing better teaching materials rather than spending every free minute on trying to get published in mainstream academic journals. Pluralist programs are springing up inside and outside of traditional economics departments, throughout the academic world. Perhaps most importantly, more and more faculties are opening up to the idea of widening their student's view beyond the traditional theories and methods.

## 3 Calls to Action

But while there are hopeful signs of change, this is only the start. We need more students, teachers, programme directors and deans to make a difference and help ensure that the economists of the future are prepared for their roles in society. So what can each of us do to bring economics education to a higher plane?

**Students**, be critical of what you are learning. Do not just ask: “*Is this part of the exam?*”. Instead, ask: “*Does this reflect the real world?*”, “*In what other way could one also look at this issue?*”, and “*What are the moral dilemmas surrounding this case?*”. Look up the course you are following in chapter *Tool 2: Adapting Existing Courses* and discuss the suggested additions and changes with your teacher. Design your own ideal course with the tool of chapter *Tool 4: Example Courses* and campaign to make your dream into a reality. Talk to your lecturers and find out who is interested in your ideas. Build public support by publishing an open letter or petition that advocates for the creation of this new course.

Get in contact with the programme committee and apply the *Tool 3: Curriculum Review* to your programme to see what could be improved. Build, or join, a local team of critical students. Organise a reading group or an event. If you want, you can get affiliated with the international Rethinking Economics network and benefit from the experience, contacts and resources of a large worldwide network of student groups. Doing it together will not only help you last longer and achieve more impact, it will also be more fun.

**Teachers**, think about what you are preparing your students for. Less than 3% of them will become academic economists, the rest will work inside government agencies, policy institutes and think-tanks, (central) banks and other financial corporations, private sector and not-for-profit companies, NGOs and campaign groups, and journalistic entities. As such, they will work on tackling practical and real-world problems, rather than publishing academic articles. So, confront your students with the messy and complex real world, let them practice tackling actual cases, start lectures with today’s newspaper, ask guest speakers from the relevant field, and let students go out of the classroom and see it with their own eyes.

Stimulate open discussions and active participation from students, bring in literature from other disciplines, actively expose the weaknesses of the theories you are teaching. Make normative assumptions explicit and let students struggle with the resulting moral dilemmas. Make sure that you are not just pushing through a textbook; be proud of your role as a teacher and use it. Make use of the suggestions provided throughout this book, and in particular in *Tool 2: Adapting Existing Courses*. Kick-start discussions, play devil’s advocate. Trigger students to start thinking, critically and independently.

Most academics reach many more people through their teaching than through their academic papers. Yet today, teaching is underappreciated and under-rewarded. Often, the time allocated for teaching is not nearly enough. Please speak out about this. Challenge that status quo, with the students as your allies.

**Deans and programme directors**, support and facilitate good teaching. Make sure that your faculty have enough resources and time available for teaching. Enable them to constantly improve their teaching and update the taught material. Give students a voice and role in designing and adapting the courses. And ask yourself: how is our program built? Was it created through a departmental power struggle about which professors’ specialisation is more important and deserves most space in the programme? Or is it carefully designed based on a clear idea of the societal roles students are being prepared for?

Do not be afraid to deviate from the standard programme at other universities. Variety in programs makes economics education stronger, not weaker. Take a look at the chapter *Tool 5: Example Curricula* and draw

inspiration from other innovative programmes. And try your hand at the Curriculum Review Tool, to see where in your programme there might be gaps in terms of relevant knowledge or skills. You could also ask teachers or students to run this analysis, and set up a series of meetings to discuss the outcomes. Or you could ask members of the international Rethinking Economics movement to organise a workshop or conference to further explore how the programme could be improved. Attention and open discussion about how to better economics education can only be positive, contributing to better prepared future economists.

**Governments**, create the right conditions for good economics education. Look at how resources for teaching and research are distributed. Does this encourage relevant, open-minded and interdisciplinary research and teaching, or does it encourage scoring on the intellectual square millimetre through a competitive ‘publish or perish’ system? Are universities stimulated to offer their faculty career options focused on education and reward good teaching? Governments could also follow the French example (2014) and initiate an independent and in-depth investigation of the state of the economics education in the country.

Climate change, inequality, economic instability, ageing, power concentration, pandemics, biodiversity loss, social polarisation, resource depletion, migration, poverty; these are core challenges for the world of today and tomorrow. Economists have a central role in society and need to tackle these challenges head-on. Reforming and modernising economics education is therefore of great importance not only to the students and teachers directly involved in it, but also to society as a whole. Let’s build better courses and programmes, together.

# Ready to get started?

This book is free and open access. We hope it serves you. Here are three things you can do to help this movement for renewing economics education:

- 1. Send this or another booklet to three colleagues/students: [economy.st/short](http://economy.st/short)**
- 2. Contact us to organize a workshop at your faculty: [economy.st/workshops](http://economy.st/workshops)**
- 3. Subscribe to the newsletter: [economy.st/news](http://economy.st/news)**

