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**READINGS IN
POLITICAL ECONOMY**
ECONOMICS AS A SOCIAL SCIENCE
Third edition



Edited by
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INTRODUCTION

Whether we like it or not, economic issues are of great importance. As individuals we are all concerned with the material conditions of existence: securing an income, managing that income, balancing saving against consumption, and so on. At a more aggregated level, nations also face similar problems, although it is sometimes observed that, for affluent nations, the problem of ensuring that everyone's material wants are satisfied is unequal income distribution rather than inadequate productive capacity. Economics concerns itself with the study of how these issues of production, distribution, exchange and growth are confronted by individuals, by social groups and by different types of societies.

The current economic conditions make exposure to economic analysis imperative since many problems have intensified in recent years. The economies of individual nations have become increasingly integrated through trade in goods and services, movements in capital and labor, and the operation of financial institutions so that people now often speak of a single global economy. However, the global economy faces continuing difficulties that impact on individual countries. International debt and trade imbalances pose major problems. Financial markets face periodic crises. It is not ecologically sustainable to base the economy on resource extraction and current forms of energy use. The capacity of states to engineer economic solutions is under increasing strain. The answers to such problems offered in the past no longer seem appropriate.

Can economics as a subject provide solutions for these contemporary concerns? One might reasonably expect it to do so. However, the discipline is bedeviled by its own problems. A student coming to the subject for the first time cannot expect to find ready and simple answers that explain how the economic system functions. There is a range of conflicting explanations of the operation and the problems of modern economies. Moreover, these varied explanations are typically linked with particular political positions.

This essential diversity is sometimes obscured by the dominance of the subject by a particular school of thought. This orthodoxy, based on neoclassical economic theory, forms the core of most standard textbooks and media commentaries on contemporary economic issues. Its influence on public policy proposals has been particularly evident in the last three decades. However, both as economic theory and as a basis for economic policy, this orthodoxy is subjected to continual challenge. Its dominance has been at the expense of alternative frameworks for understanding how the capitalist system functions, each of which provides insights that cannot be seen from the orthodox perspective.

The challenge to reformulate economics to take account of these insights involves reformulating economics more explicitly as a social science. It requires integrating economic analysis more closely with cognate disciplines such as sociology, political science, history, human geography, and anthropology. Economics deals with *people*, how they are organized for the purposes of production, how income and wealth are distributed among them, and how they interact in the process of exchanging goods and services. Thus, the study of the economy is necessarily linked with the study of *society*. A modern economist needs to understand the relationship between the economic system and the structure of social classes; the significance of economic power and of changes in economic institutions, such as the growth of the international financial system and its tendency to periodic crises; the changing character of government intervention in capitalist economies; and the varying relations between nation states. These are key issues for economics as a social science.

Approaching the subject in this way involves the reformulation of economics as political economy. This does not necessarily mean a return to the concerns of classical political economists writing two centuries ago. The character of economic life has changed so much in the meanwhile. However, the breadth of concerns of classical political economy does stand in striking contrast to the more narrowly constructed concerns of neoclassical economic theory. The further development of a modern political economy involves embracing the big questions about production, distribution, growth, and crises that have all-too-often been neglected in the neoclassical economic orthodoxy. It involves recognition that state, class, gender, race and ideology are key elements in shaping the 'social order' of modern capitalism, as well as 'the market' which is the primary focus of orthodox economists. It involves trying to understand the contradictory elements in economic systems and the forces generating evolutionary change. The real world will not stand still while we study it.

Modern political economy therefore can sensibly draw on the major currents of thought which have challenged the conventional wisdom of the dominant neoclassical economics – Marxian, institutional, Keynesian and post-Keynesian. It can also draw on the insights provided by contemporary social movements emphasizing 'green' and feminist agendas and on other perspectives that emphasize the 'have-nots' who have been marginalized by contemporary economic processes. It can also take account of developments in behavioral economics that link economics closer with social psychology. Drawing from these heterodox political economic approaches, modern political economy can address contemporary concerns about managing national economies, guiding structural economic change, regulating markets in the interests of equity and stability, and coping with the economic consequences of technological change. These are grand challenges to which there are no simple solutions.

This book provides a basis for such explorations. It is a new edition of a book previously titled *Economics as a Social Science*. The new version, compiled with the research assistance of Tim Roxburgh, retains the classical contributions but updates many of the previously published articles and adds 27 new articles to replace others. There is a mixture of classical and contemporary contributions. Many of the articles are condensed versions of longer originals, abridged in order to bring out key issues. Extracts have also been selected with a view to making the issues accessible to non-specialists who might otherwise shy away from the study of technical economic issues.

Calling the subtitle of the book *Economics as a Social Science* draws attention to the social purpose of economic inquiry. This is the essence of political economy as an academic and practical endeavour – understanding the world so that we can change it for the better. Whether the label 'science' is appropriate remains a moot point, however. The claim to scientific status sits uncomfortably with the inherently political nature of economic inquiry. Political questions are those over which reasonable people can reasonably disagree. However, if we are to avoid a chaotic free-for-all we have to be as systematic as possible, carefully considering alternative explanations of economic phenomena and weighing the evidence and arguments, given the existing (inherently imperfect) state of knowledge.

Therein lies the intriguing possibility of turning the 'dismal science,' as economics has traditionally been known, into a 'science of liberation.' Once the constraints on efficiency, equity, and sustainability are better understood, we may escape the dismal condition in which economic concerns are so dominant. Seen in this light, political economy can claim to be an essential element in social progress.