Diversifying the economic toolkit: An introduction to pluralist economics

PLURALISM IS COMING
Welcome to pluralist economics!

Welcome to pluralism!
Pluralist economics is the idea that the best way to understand the economy is to study a large number of competing theories. If you’ve studied economics in the past, this might sound like a pretty foreign concept. Economics is often taught as if it is a hard science, with strict rules that need to be followed if one is to come to the correct answer. Pluralist economists disagree with this vision of economics. Instead, they think that listening to and respecting a diverse set of voices is a sign of strength, not weakness.

Economic theories are like maps
Economic theories explain the world by simplifying it. That makes them a lot like maps. Maps take the immense complexity of the physical world and reduce it down to answer a few specific questions. Some maps focus on the political boundaries that show our countries and regions, some on physical features like mountains or rivers, and some on the roads and rails that get us where we want to go. In school we learn how to read and understand all the kinds of different maps that we will need throughout our lives.

Pluralist economists think we should do the same with economic theories. Economic theories simplify away different parts of the world in order to answer different questions. That means each individual theory is necessarily incomplete and limited. In order to get a full picture of the economy students should learn to use a large range of different theories and ideas. That’s what pluralist economics is all about!

This guide will introduce you to nine different economic ‘maps’.

About this booklet
This guide was created by J.Christopher Proctor in his role as the Associate in Pluralist Economics for oikos International. oikos is an student organization working to integrate sustainability into economics and management education, and is one of a number of student groups working to promote pluralist economics.

The art in this guide was created by a talented team of artists that included Alexandra Sokolenko (Ale), Rachel Proctor (Rae), and Francesco Campo (Fra). Alexandra and Michela Ciccotostro also contributed to the writing and design of an earlier version of this guide.

This booklet is based on the new book “Rethinking Economics: An introduction to pluralist economics” (Routledge 2017). If you want more pluralist economics, this is a good place to start! Another good resource is exploring-economics.org.

If you want more information about this booklet, to host a workshop about pluralist economics or to contribute to future projects like this one, contact J.Christopher here: j.christopher.proctor @oikos-international.org
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‘Effective demand’ drives the economy

The amount of economic activity in a country can either be constrained by how much stuff businesses are able to create (the supply side) or by how much people are able to buy (the demand side). Most economists think the limit is usually set by supply, and only in rare cases – like big depressions – does demand limit growth. Post Keynesians disagree. To them, the economy is almost always constrained by demand, and supply is only important in rare cases like during big wars when the economy is really running at 100%. This means the economy is almost never operating at full capacity, and could be more productive if someone – the government, businesses or consumers – were able and willing to spend more money. This leads post-Keynesians to want to increase wages for workers (so they can spend more) or get governments and businesses to spend more money on big investments.

Financial instability hypothesis

Financial panics and crashes aren’t random events, but are a part of a recurring cycle. After a crash, businesspeople and bankers are cautious and conservative. They only invest in projects they know will work, and they keep low levels of debt. After years of businesses being able to easily repay their loans, they slowly start to want to make riskier investments. Banks also want to start making riskier loans, and over time the level of debt and risk in the economy grows. At some point, someone gets spooked by all the debt and risk, and the entire house of cards falls down, leaving only the most conservative banks and businesses standing to start the cycle again.

Fundamental uncertainty

Businesspeople like to know the probabilities of what’s going to happen in the future, but some things are simply unknowable. How well an investment will do can depend on unpredictable things like wars, or hurricanes, or sudden changes in technology. To make big decisions, businesspeople rely on their gut feelings, or what Keynes called ‘animal spirits.’ If lots of people are feeling good about the economy, there will be more investment and more growth. When people feel bad, they stop investing and growth crashes.
Endogenous money
Governments and central banks print the hard, physical money you keep in your purse or wallet. But most of the money we use isn’t money at all! It’s a deposit, or credit, in a bank. Banks take our money, and lend most of it out to someone else. In doing so, they ‘multiply’ our money, because both the depositor, and the person who just got a loan can use what was originally the same money. In this way, banks can effectively create money by deciding how much they lend and how much they hold in their vaults. When they economy is doing well, banks lend more and create more money. When the economy slumps, banks lend less and create less money. This means the money supply automatically moves up and down based on how the economy is doing, which can be a big problem for governments who want to control the economy by playing with the money supply.

Where do they come from?
Unsurprisingly, Post Keynesians trace their history back to John Maynard Keynes. Keynes ideas about economic depressions and how governments should respond to them were hugely influential among economists. But, according to some of Keynes’ closest followers his ideas applied not just in the special circumstances of depressions and recessions, but to the economy more generally. These people became the ‘post-keynesians’, in contrast to the more mainstream ‘neo-keynesians’ or New Keynesians. Famous Post Keynesians include Michal Kalecki, Joan Robinson, Nicholas Kaldor, and Hyman Minsky.

Idea for the President
- The government needs to spend more money to stimulate the economy! Even literally throwing money out of a helicopter could create growth!
- Unless unemployment is almost 0%, the economy could be growing faster.
- Workers should have more power because when they get richer, the economy has more demand and grows faster.
- Financial markets are super unstable. They need to be controlled so they don’t destroy the economy.
- Business people get to determine the level of investment which helps determine the level of growth. Keep an eye on them.
Marxist Economics

Value and exploitation

Where does value come from in an economy? Not prices, but the actual value of the goods and services you use everyday. For Marxists, value comes from work. Whenever a worker swings a hammer, sends an email or stands behind a cash register, they are adding value to the economy. A natural next question is how does so much value get into the hands of such a small number of people? According to Marxists, whenever you work, your boss will only pay you a certain percent of the actual value you create. The rest — the surplus value — goes to the person or business who hired you. Marxists call this process exploitation, and uses it to explain how capital accumulates in the hands of a relatively small number of companies or capitalists.

Power shapes society

The concept at the center of much of Marxist economics is power. Surprisingly enough, power does not play a huge role in much of economics, as people are assumed to willingly enter into economic agreements with each other. For Marxists, power shapes everything. A particularly important type of power comes from ownership, as people who own land or capital are able to live off the income created by their assets, while almost everyone else has to work for someone else to survive. Differences in power not only shape the economy, but are reflected in political institutions and even aspects of our culture.
Social Class

Marxists talk a lot about big groups of people like workers and capitalists. This isn't by accident. While a lot of economics tries to analyze the actions of individual decision makers—like businesses, individuals or households—Marxists like to think in terms of social class. Classes are groups of people that share some set of important defining characteristics, like 'capitalists' who own companies or 'workers' who don't. Thinking in terms of class allows economists to aggregate people by their economic interests and try to understand how and why different groups of people work together or come into conflict. Class analysis can be simple, like the worker capitalist dichotomy, or made more complex to include groups like professionals or managers.

Origins

Today, Marxist Economics is considered radically different from mainstream economics. But when Marx was writing, he actually closely followed a lot of the basic methodology of famous economists like Adam Smith and David Ricardo who were considered the 'mainstream' of his time. He just focused on different questions, and came to a radically different conclusion. Since Marx, many economists have followed in his footsteps, using his writings to better understand and criticize the capitalist economies of their times.

It's Revolution time!?

- End exploitation by giving companies to their workers or to the government!
- Stop discrimination based on sex and race. We're all workers here!
- Empower trade unions. Protect people against corporations.
- Promote worker-control initiatives, solidarity economies and communitarian and cooperative structures of production.
- Take back government institutions from Big Money that controls them.
- The financial system usually does more harm than good.
- Overcome capitalism!
Austrian Economics

Economics should be more like philosophy and less like science

A lot of economists think their discipline should try to work like a natural science. An economist should see something in the world they want to understand and then come up with theories that explain the phenomenon. Then, when the discipline works the way it’s supposed to, those theories are tested with real world data to see if they are actually helpful explanations of the topic in question.

But Austrian economists have some big problems with this method. First, they point out that because you can’t put an entire economy in a laboratory, there is no serious way to check a theory against the data like in the natural sciences. More fundamentally, they say that the natural sciences approach to the economy only makes sense if you believe that people will act in the exact same way in identical situations. But people are not like the law of gravity. They do not act in scientifically predictable ways. As such, theories based on observing people will only get you so far.

Instead, Austrian economists think economics should be made up of long logical chains of claims that are indisputably true based on the laws of logic and the nature of human action. Much of Austrian economics then actually reads more like philosophy or pure logic than what would typically be considered ‘economics’. This unique method leads Austrians to some unique conclusions, as they deal more with fundamental topics like freedom and human choice than with the typical cause and effect questions asked by other branches of economics.

Government-produced money creates big problems

For Austrians, money is a big deal. In almost every country, money is produced by a government agency (like a central bank) or an inter-governmental institution like the European Central Bank. Countries often also have laws saying that people have to accept government money for transactions (legal tender laws), or laws making it illegal to create and distribute your own money. When there is only one type of money in a country (like the US Dollar in the United States), there is also an implicit promise that the country that issues the money will do basically anything it can to maintain the value of the currency. For example, in the middle of the 2008 financial crisis, the United States government had a massive incentive to print more money to intervene and save struggling private American banks. If they hadn’t, the value of the dollar would likely have crashed, causing big problems for the US government. But, banks and businesses understand this game, so during the boom years before the crisis, they had every reason to take wildly risky actions – they knew that when everything went wrong the people who print the money would have every reason to step in and save the day. Had money been created and regulated by an independent private entity – or had there been competition between various types of money within the United States – there would be no reason for people to assume that the money creators would save the day when the crisis hit, and therefore there would be no clear reason to take on so much extra risk in the first place. Government-money is usually considered a core part of our economies, but for Austrians it is also at the root of much of our economic instability.
Background
The Austrian school started because of a fight within the German Historical School in the 1880s. For years the historical school had stressed the importance of using real world examples to understand the economy (much like today’s institutionalist economists). But a group of economists based in Vienna disagreed (hence the name ‘Austrian’). Led by Carl Menger, they argued that humans are far too complex to model based on past behavior, and economics should instead work like logic or philosophy. In the 20th century, many Austrian economists moved to the United States where the school thrived, particularly after Austrian economists Friedrich Hayek won the Nobel Prize in 1974.

Government meddling drives business cycles
The interest rate plays a key role in the Austrian business cycle story. Interest rates are the cost of borrowing money. Governments usually have a lot of influence over interest rates — enough influence that economists usually talk about governments and central banks ‘setting’ interest rates. If the government sets the interest rate under the market rate (the rate that would have been determined by supply and demand), then more investment projects will be undertaken, and in the short run there will be more economic growth. But, these additional investments are only being made because of the low interest rates – had rates been set by the market the projects would not have been funded. Austrians call these projects ‘mal-investments’, because over time, they prove to be economically unviable. Once some of the mal-investments start to fail, they bring other bad investments down with them, as large parts of the economy start to crash.

While most economists think the crash is a disaster, for Austrians it is the end of a nasty cycle that started when the bad investments were made possible in the first place. Instead of fighting the bust with easy credit that creates a new round of mal-investments, Austrians think the government should do as little as possible and let the market heal itself by allowing only the most sound businesses to survive into the future.

What should we do?
- Government’s almost always make a mess of things. Prosperity can be achieved only with laissez-faire (free market) policies.
- Economic crisis can be a good thing if it let’s the economy adjust back to its natural position.
- People know best about their individual economic situation, and information is lost as it travels up government or corporate hierarchies. Decisions should be made at the most local level possible, where the most information is!
- Currencies that aren’t controlled by the government (go Bitcoin!!) can be more efficient and safer than traditional government currency. Don’t be afraid of allowing competing currencies.
- If the government exists at all (maybe it shouldn’t?) it should do as little as possible so it stays out of the way of the economy.
Institutional Economics

Institutions matter

For institutional economics, an ‘institution’ is any system of social rules. This includes formal institutions like laws or governments or businesses, but it also includes informal parts of life like codes of etiquette, customs, languages and general ‘ways of doing things’.

It's no secret that institutions exist and that some of them are quite important for the economy, but for most of economics, institutions are treated as details that can be ignored when looking at the ‘big picture’. Institutional economists disagree and instead argue that institutions are the big picture! Institutions shape and even create markets, and subtle differences in institutions can determine whether an economic policy succeeds or fails. That's why institutional economists think it’s so important to look at the details of specific institutions to understand what's actually going on in the economy.

Institutions drive economic growth

How did Europe become so much richer between the Middle Ages and today? Ask most economists and they'll probably tell you something about how the new technologies of the industrial revolution made workers significantly more productive. But an institutional economist might tell a very different story. One popular institutional theory is that, while technology played a role, the real causes of development were more mundane things like the reduction in piracy, the creation of a few big port cities, and the decrease of tolls along major roads and rivers. These institutional developments make it easier for complex and stable markets to develop, and along with them more effective legal and political systems. And these more complex systems allowed countries to sustain high growth rates over a very long period of time. Based on this insight, institutional economists would have very different ideas from other economists about what developing countries should be doing to grow their economies.

Legal institutions are extra important

Legal institutions are a particularly big deal for institutional economists because they provide the framework in which the rest of the economy has to operate. Most economists take a lot of things for granted when they think about the economy. For instance, a basic theory of supply and demand rests on the assumption that people are able to own things and then sell those things to other people. But property rights are not some natural part of the universe. They are defined and then enforced by governments, tribes or other social groups. Institutional economists take the legal underpinning of the economy very seriously, and insist that the details of a country’s laws can have serious (and unexpected) effects on key parts of its economy.
Institutions shape individuals

Why do people want what they want? Most of economics simply accepts that people have a certain set of ‘tastes and preferences’ and then works to see how they maximize their happiness. But institutional economists take a step backward to ask how people come to want things in the first place. All kinds of institutions shape how we see the world, and in turn what we want to do with our time and money. The educational institutions we attend and the culture of the places we grow up have a huge effect on the kinds of jobs we want to do and the kinds of products we want to buy. Advertising also plays a big role. Unlike economists, businesses don’t just accept that people have fixed preferences, but instead spend a lot of money to try to impact how we feel about their products. Once you start thinking about how preferences are created, it becomes much less clear that everyone maximizing their ‘happiness’ is actually the best goal for economics. Instead, institutional economists look at the roots of people’s desires to understand how things like competing with our neighbors or wanting to be ‘in style’ can drive key parts of our economies.

Where do they come from?

Institutional economics developed in the United States in the first half of the twentieth century as an outgrowth of the German historical school. Led by economists like Thorstein Veblen, John Commons, and John Kenneth Galbraith, institutional economics remained very influential in the US until around the 1950s. Institutions made a comeback in the 1970s and 1980s as ‘New Institutionalist Economics’, a field that analyzed economic institutions using many of the methods of neoclassical economics. Today economists work in both the ‘old’ and the ‘new’ traditions.

Recommendations

- Building strong government and social institutions is a must for development.
- Pay attention to the details when making policy! Little issues can cause huge problems.
- Don’t assume that markets will fix all your problems.
- Look to history to understand the present.
- Make reforms, not revolutions!
Feminist Economics

Studying markets is not enough

Economics is supposed to study the economy, right? It seems straightforward enough, but in reality most economists actually end up almost exclusively studying markets – situations where people trade money for goods and services. But a big part of any economy is not in the form of markets and exchange, but takes place in other settings like families and communities. Cooking meals, caring for elderly parents and even having children are all deeply economic actions. They take up time and resources, and fulfill important needs for people and societies. When these kind of activities take place in a market setting, like a restaurant, economists are more than happy to study them. But when mom cooks dinner or the big sister helps the kids with homework, the actions are somehow invisible to most economists. The fact that in almost every society on earth women tend to do more of these non-market activities skews economics so that it under-states and misunderstands the contribution of women to the economy. Feminist economics then is not an economics just for women, or even an economics studying women in the economy, but is an economics that looks at humans’ full economic lives, inside and outside of markets.

‘Care’ is a key part of any economy

We all need someone to take care of us at some point in our lives. This is most obvious when we’re really young or getting older, but it’s also true all throughout our lives when we get sick or just need someone who can cook us a warm meal. For many of us, the care we give and the care we receive is a central part of our lives, not just because it takes up a significant amount of our time, but because it involves the people we love most. But care is also the foundation of our economy – without some level of care, children could not grow up to become the workers and businesspeople that most economists study when they talk about the economy. Once again, the social norms of most societies expect women to be responsible for more care work than men. This is true outside of markets, where women are often responsible for raising children, doing housework and taking care of elderly parents, and also in the marketplace, where women are more likely to work in jobs that require a degree of care, like nursing, teaching young children or social work.

In economics, work is usually described as if everyone worked in a giant factory where they convert their time into manufactured goods. But, this metaphor doesn’t really fit with caring activities where the time spent caring is the ‘good’ being created. This can lead economists and policymakers to misunderstand the caring economy, or worse, or ignore it entirely.
Economics needs a broader definition of wellbeing

Gross domestic product (GDP) – the sum of all the goods and services produced in an economy in a given year – is probably the most used, and most criticized, statistic in economics. While economists claim to study the economy, GDP only measures the market economy, leaving out all the economic activities in which money does not change hands. As an old joke says, if every family were to pay their neighbors to cook their dinners, mow their lawns and wash their laundry, GDP would double overnight, as a large part of the non-market economy would technically shift into markets. It’s fairly common now for economists to acknowledge that GDP isn’t a perfect stand-in for well-being, but it’s much less common for economists to recognize that a disproportionate amount of the economic activity not being counted in GDP is done by women.

And it’s not just how we measure GDP. In a lot of countries, if you build a new school, the money spent would be considered an ‘investment’, and receive special treatment in government budgets or tax laws. But when you hire teachers to fill the school, the wages are simply an operating expense and are not counted as an ‘investment’. Feminist economics demands a broader, and more accurate, definition of economic ideas like well-being and investment that takes the idea of care and human development seriously, and does not systematically disadvantage women.

What to do?

- Think about the WHOLE economy, not just the bits where money is involved.
- Have the government invest in the caring economy.
- Consider the gendered effects of government policies. Make sure government ‘stimulus’ isn’t just for strong men working on construction sites.
- Encourage flexible working arrangements that allow people to work in the formal economy while also doing care work.
- Create new metrics that help policymakers see the ‘hidden’ parts of the economy.

History

In the 1970s feminist economists started to make their voices heard by criticizing the fields of labor market and household studies which treated women and their work as accessory ‘distortions’ that were not worth integrating into the standard model of the representative rational individual. Later in the 1980s the critique moved to a more theoretical ground: feminist economists wouldn’t accept the prevailing vision of the ‘economic man’, the market economy or the methods used to analyze the two. Thus a new discipline was born that connected unpaid work to growth and development. Feminist economists have also been on the forefront of the movement to improve and invigorate economics teaching and education.
Behavioral Economics

**Bounded rationality**

Behavioral economists think that humans are not economic supercomputers. This might not sound super controversial, but most standard economic models assume that people have an unlimited amount of time and brainpower to maximize the results of every decision they make. Behavioral economists say that these generous assumptions skew the results of normal economic models. A better path is to think of people as having ‘bounded rationality’. Humans are rational—we don’t just act crazy for no reason all the time—but we only have so much brainpower to devote to each of the thousands of decisions we make every day. This means that all kinds of non-economic factors slip into our decision making, a fact that can turn out to be quite important to understanding the economy.

**Heuristics and cognitive biases**

Because we can’t do massive amounts of mental math every time we make a decision, our brains come up with little shortcuts to help us jump to the right answer. These ‘rules of thumb’, sometimes called heuristics, are usually good enough to let us easily go about our daily lives. But sometimes they lead us to make systematic errors that behavioral economists call cognitive biases. For example, people tend to naturally interpret new information in a way that supports their preexisting beliefs, a situation called confirmation bias. They also tend to be angrier about losing things than they are happy about gaining things, a bias called loss aversion. There are dozens of different biases, and each can have big and predictable effects on how people make economic decisions.

**Nudging**

Governments and businesses are increasingly using behavioral economics to get people to behave in a certain way. Instead of big, expensive government programs or business initiatives, insights from behavioral economics can sometimes be used to make very small changes in policy that ‘nudge’ people to make the desired choice. A famous example is the difference between programs where people have to go out of their way to join (opt in) versus programs where people are automatically signed up but have the option to opt out. Without spending any extra money or forcing anyone to do anything, switching to an opt-out program can dramatically increase the number of people who participate. On the business side, things as simple as putting the most profitable items at eye level on a store shelf can prove surprisingly effective. Behavioral economists don’t think nudging can fix all of our problems, but they do see a lot of room for policymakers to pick up easy wins by ‘nudging for good’.
A bit of history
In the past, classical economics used to include a rich account of human psychology in order to understand human choices. But at some point, these real world considerations were dropped in favor of more abstract models that assumed people acted like ‘homo economicus’, or an economic superman. These simple models are quite powerful—abstraction allows economists to easily comment on all kinds of diverse situations—but some economists argue that with simplicity comes inaccuracy. Instead, behavioral economists have tried to re-introduce knowledge from other disciplines such as psychology and the social sciences to study how people actually behave in the economy. In recent years, behavioral economics has become incredibly popular, with governments and businesses setting up ‘behavioral economics teams’ and prominent behavioral economists winning the Nobel Prize.

Where to go now:
• Set up a ‘nudge team’ to see if small changes can make government work better.
• Make local experiments to see how people react to different policies.
• Work with businesses to make them more competitive by using behavioral insights.
• Study cognitive biases to recognize problems in your own decision making process.
• Work with psychologists to see how people really think when making economic decisions.
Complexity Economics

The economy is a complex system
A standard way of thinking about the economy is to start by thinking about the actions of a single individual or business – a ‘representative agent’ – and then multiply out to see what the economy would look like if everyone acted in a similar way. For complexity economists, this kind of thinking just isn’t complex enough to really understand what really makes the economy work. We live our lives in a series of interconnected and interrelated networks. The economy is the result of these various relationships between workers and employers, advertisers and consumers, voters and politicians, and everything else in between. Looking at a single individual misses the webs that individual is a part of. And these complicated webs are the real heart of what the economy really is. By looking at how individuals continuously influence and interact with each other, complexity economists hope gain a much better understanding of how our complicated behaviors aggregate to create the economy.

Individuals are social insects
A complexity model of the economy might think of people like ants. Each ant follows simple rules in a given situation. These basic rules can adapt to changes in the environment. Each ant is assumed to only knows what is going on around it, and not have a full picture of what’s going on far away. With a framework like this, it’s possible to model the behavior of an entire anthill. Each ant leaves the hill to try to find food to bring back to the hill. If an ant see other ants bringing back food, she will follow the path that the other ants had taken. Ants will then continue along this path until the food source is gone, at which point new ants leaving the hill will have to adapt their behavior and instead start exploring for new food. This kind of explanation may sound simplistic, but when applied to real world economic situations like financial markets or changes in consumer tastes, complexity economists think it can actually be quite powerful in showing why markets sometimes work beautifully, and other times fail spectacularly.
Complexity creates unexpected results

A famous example from complexity economics looks at racial segregation within cities. The model assumes that half the people in the city are white and the other half are black. Every individual in the city follows one simple rule – they want at least half of their neighbors to be same color. If they find themselves surrounded by people of the opposite color, they will move by switching places with a neighbor. If you tried to understand what would happen by looking at the big picture, you could easily think that, as literally every resident is happy living in a mixed neighborhood, the city would end up with a neighborhoods where everyone has both white and black neighbors. But when you use a computer to simulate the actions of each individual, you get a very different situation. Without fail, the white and black residents move away from each other, and settle into completely segregated sides of the city. A similar situation happens even when you change the rules of the game so that every resident actively wants to live in a mixed neighborhood where exactly half the neighbors are the other color! This kind of model shows the power of complexity thinking in explaining real world phenomenon that are not obvious by looking simply at the desires of a single individual. Similar models are used to explain financial crises by looking at the complicated relationships and networks that allow bubbles to build and then crash.

Agents preferring that less than half of neighbours have opposite colour:

Agents preferring that exactly half of neighbours have opposite colour:

History of the school

A lot of complexity economists aren’t economists at all. They’re physicists, engineers, biologists or other natural scientists that switched over to economics to take a stab at understanding the economy. That’s why complexity theory often makes use of hyper-advanced math, and why it has key similarities to fields like evolutionary biology. The complex system approach has become more popular recently, and is starting to be used in central banks such as the Bank of England, international organizations like the OECD, and finance ministries like the US Treasury.

Thoughts:

- Humans are complicated, and relationships between humans are super complicated. Be humble about how much we can understand when making policy.
- Think about systems: that’s where the real action is in the economy.
- There will always be unexpected consequences of policy decisions. Prepare for them.
- Don’t assume that markets will simply give people what they demand. Markets can create results that no one wants.
- Include redundancies and fail-safes in your economic systems. At some point, things are going to go wrong.
Co-operative Economics

Firms can be ‘cooperatives’

The core idea behind cooperative economics is that instead of organizing as a profit-maximizing business, firms can instead be owned and managed by their workers in the form of a cooperative. There are already thousands of real-world cooperatives operating around the world today. And while they vary wildly in terms of size and complexity, in each the workers are able to both meaningfully participate in the decision making process of the co-op and share in the gains of the enterprise. Cooperatives defy much of economic theory, which assumes that firms want to maximize profits for their owners. This basic assumption sets up an eternally competitive relationship between workers, who want high wages, and firms that want low costs. But when the workers are also the owners, a new theory is needed. Cooperative economics tries to provide these theories, by looking at the cooperatives already in existence and working out what an economy built on worker ownership could look like.

A new way to manage our wants and needs

Economics generally forces us to think of people as wearing different hats throughout the day. When we go to work we’re producers but when we go to the store we’re consumers. These roles often lead to awkward conflicts, as our consumer side wants an economy with cheap prices, but our producer side wants high wages and good working conditions. Cooperative economics points to this divide as a fundamental problem with our current economic system, and instead tries to think of economic organizations like co-ops that can harmonize people’s wants (their consumer side) with the work they do throughout the day (their producer side). In this sense, cooperatives are not just an alternative way to organize a business, but are an opportunity to reinvent people’s core economic activities in a way that re-embeds our economy within our communities and the natural environment.

Trade must be fair

Cooperative economics leads to a very different notion of what international trade should look like. In our current economic system, international trade is driven by companies that are trying to make money by making (or buying) things in one part of the world and selling them in another. But for cooperatives which are not trying to generate profits, the motivations for trade are quite different. If workers are responsible for making business decisions for their cooperatives, then they should only engage in trade when it makes the workers on both sides of the deal better off. Instead of being driven by profits, trade in cooperative economics is driven by values such as justice and fairness. This notion of ‘fair trade’ already exists in the economy today. Cooperative economics envisions a world in which fairness, defined by workers, is the driving feature in international trade.
Cooperatives are inherently sustainable

One major argument of cooperative economics is that co-ops are an inherently sustainable form of economic organization. When people are able to produce for themselves and not for profit, their economic strategies can change in important ways. For instance, it is well known that many businesses intentionally design their products to have a short lifespan so that consumers will have to return to buy more. This kind of ‘planned obsolescence’ is quite wasteful, and is representative of many other unsustainable trends in our current economic system. But in a world of cooperatives, planned obsolescence would be insane, as for co-ops the goal of production is to fulfill real social needs, as determined by the workers. Cooperatives also do not have a constant need for growth the way that competitive profit seeking business do. By producing for social needs, co-ops tend to stay local, which promotes a high level of concern for the long term health of the local ecosystem. Finally, because cooperatives are run by a community, a large number of people are trained with the practical skills of running a business that are needed to maintain a cooperative’s activities over very long periods of time. This helps keep the activities of cooperatives themselves sustainable!

Origins

Cooperatives as a form of organization are as old as mankind itself. But the growth of the modern cooperative movement arose more recently. Led by social reformers like Robert Owen in Britain in the 1800s, influential cooperatives begun to pop up across the industrialized world. Today cooperatives are surprisingly widespread—according to one estimate over 1 billion people in the world belong to some type of cooperative. The best known cooperative businesses in the world are those who make up the massive Mondragon group in the Basque country in Spain. Cooperative economics studies these cooperatives and thinks about how the economy could work in a world of cooperatives.

Co-opts for everyone!
- Governments should help encourage and support cooperatives.
- But we don’t have to wait for government help! Economists can help existing cooperatives or even start their own.
- Cooperatives aren’t just for workers: consumers can create co-ops to let them buy things like food or housing at fair prices.
- Even the financial sector could be organized with co-ops—that’s what credit unions are all about.
- Co-ops can be used to fight poverty and protect the environment. People working together is a powerful force!
The economy is embedded in the environment

‘Environmental economics’ is a phrase used to describe pretty much any economic work that deals with the environment as its subject matter. ‘Ecological economics’ is slightly different, and refers to a distinct school of thought which stresses the fact that the thing that we call ‘the economy’ is actually a subsystem of the environment, and as such faces hard bio-physical limits imposed by nature and the Laws of Thermodynamics. Everything that happens on earth is governed by the laws of physics. But living things are also subject to the laws of biology, as the living world is embedded within the physical world. Human life, and the social rules and structure that come with it, are further embedded in the living, and physical worlds. Finally, the economy is a subsystem of the human society. This all might sound pretty abstract, but it’s a helpful framework for understanding the limits of the economy. Not only does the economy face physical limits – we can only use so much energy on earth – but it also faces biological limits and social limits. Understanding these limits frames how ecological economists think about major economic topics like economic growth or economic inequality.

Economies are like human bodies

The human body needs a constant stream of resources – food, water, air, heat – to survive. We take these inputs, process them, and create energy and waste in a process called metabolism. Economies do something similar. They take inputs like natural resources and energy and produce goods and services along with waste like trash and pollution. Ecological economists call this process social metabolism. Again, this concept might sound abstract, but it’s a good way to think about the economy’s limits. The environment can only provide so many inputs, and it can only handle so much waste. And as societies become more technologically advanced the rate at which they can turn inputs into goods and services (and waste) increases. This increasing social metabolism is usually thought of as ‘development’ by most economists, but is framed quite differently by ecological economics. That’s not to say increasing social metabolism is a bad thing, but it can be dangerous when societies start coming up against their biophysical limits.
Social ecological economics

In the past, ecological economics has been criticized for focusing too much on environmental protection and too little on the human side of the economy. In recent years however, ecological economists have begun to move towards a more comprehensive framework that seriously considers both the ecological and the human aspects of the economy. One popular ecological model thinks of the economy like a donut. On the outside of the donut are the hard physical/ecological limits of the economy – things like climate change, biodiversity loss and ocean acidification. On the inside of the circle are all the things the economy needs to provide to humans to have a good life – things like food, education, healthcare and jobs. The trick of economics then is to try to keep the economy in the donut so that we produce enough for humans to be healthy and happy in a way that does not press against the boundaries of what can be physically sustained in the economy. When the economy comes up against it’s physical or social limits it becomes unsustainable.

Where did it come from?

The seeds for ecological economics were planted in the early 1970s when mathematician/economist Nicholas Georgescu-Roegen pointed out that because natural materials lost some of their usefulness as they passed through the economic system, the earth's capacity to support human life would necessarily have to decline at some point in the future. In the 1980s, the field began to institutionalize, as economists, biologists and physicists came together to try to develop a serious theoretical understanding of the relationships between the economy, energy and the environment. In recent years, social concerns about the human-side of the economy have become more prominent, with some economists even arguing that the field should be renamed ‘social ecological economics’.

What now?

- We need to think big about our social/environmental problems. Small fixes aren’t going to work.
- There are hard physical limits that new technology can’t save us from.
- Try to think really long term about the economy and where it’s going. Can we really grow forever?
- Consider the ethical issues of using resources today, knowing that the same resources can’t be used by future generations.
- Don’t forget about power within the economy. Who decides how resources are used? Who pays the price of those decisions?
- Take poverty and economic inequality seriously. An environmentally friendly economy is no good if it gets overthrown by angry citizens!