

Conclusion

A Dozen Big Things to Remember About Economics

Congratulations! You've learned how capitalism works – from a critical, grass-roots perspective. Even though we've promised to keep things simple, the system we describe is not. And the economic map we've been building, one step at a time, has now become rather impressive. It portrays an economy that is complex, diverse, flexible, and (in some ways) fragile.

You'll never remember everything in this book, as you carry on with your work, your life, and (hopefully) your contributions to economic and social justice.

But there are a few crucial lessons that I hope you will keep in mind. These key themes will help you to analyze specific economic issues and controversies as they come up. They are key principles that help sort out what's important in the real economy, from what's not – and to distinguish reality from ideology.

So here's my personal list of the dozen top things to remember about economics:

1. **The economy depends on social relationships, not just technical relationships, and (like society) it evolves and changes over time.** There is no “natural” order to the economy. There are no inherent, unchanging laws governing its behaviour. What we call the “economy” is simply the way human beings work together, to produce goods and services, and then decide what to do with what we produce. And there's nothing permanent about it. Everything about the economy – technology, geography, social relationships – changes over time.
2. **Economics is an inherently subjective, value-laden, political discipline.** The economy is not natural, unchanging, or objective. And the study of the economy – what we call economics – is just as subjective and impermanent. The economy embodies conflicting interests between different groups, and economics closely reflects

those conflicting interests. No school of economics can claim to be neutral or objective. Different approaches to economics rise and fall, depending on the course of economic (and political) debates and conflicts. Every approach to economics combines an analysis of how the economy works, with a set of values and assumptions regarding how it *should* work (and in *whose* interests). Beware of economists bearing free advice – especially if the economist claims to be “objective.”

3. **Productive human activity is the only force that adds value to the resources we harvest from nature.** “Work,” broadly defined, includes all forms of productive human effort – including paid employment, unpaid work within households, and the managerial work of business executives. Without work, nothing happens in the economy. There are a few goods which humans can consume directly from nature (like fresh air, peace and quiet, or wild berries plucked from a bush). Everything else requires the application of human effort to transform the resources and raw materials we get from nature into goods and services we can use.
4. **Using tools makes work more productive.** Humans discovered very early on that it is much better to use tools than our bare hands. The invention, production, and accumulation of “tools” (defined broadly to include machinery, structures, infrastructure, and other kinds of physical capital) has been the central feature of economic development through human history. Developing and accumulating more advanced tools, and training people to use them effectively, must occur at the same time. However, tools themselves are *not* productive: it is the *know-how* embodied in those tools (that is, knowing to make tools first, and then use them to produce the goods and services we actually want) that is productive. Merely owning a tool is not, in itself, a productive act.
5. **In capitalism, most work consists of employment.** Employment is work that is performed for someone else, in return for the payment of wages and salaries. About 85 percent of households in developed capitalist economies rely on employment as their dominant source of income. Managing the employment relationship is a central aspect of capitalism. Employers face

- a complicated challenge to try to minimize their labour costs, while simultaneously maximizing the effort and discipline of their employees. This relationship introduces an inherent conflict of interest between workers and capitalists. At the same time, there are times when workers and capitalists may choose to cooperate with each other.
6. **Unpaid work is also important.** A great deal of productive, necessary work occurs inside the household: out of sight, behind closed doors, and generally without pay. Most of that work is performed by women, whose opportunities in the “outside” economic world are constrained as a result. Remembering that this work needs to be performed, analyzing how and by whom it is performed, and making changes to it over time, are central issues in economics.
 7. **Competition is a central feature of capitalism, and forces companies to behave in certain ways.** Capitalists aim to maximize the profits on their investments; one way to do that is by poaching customers, workers, resources, and capital from other capitalists. Competition therefore introduces a new constraint on the way that individual capitalists operate. It’s no longer just greed that motivates them, it’s also fear. That fear (of being driven from business by more successful competitors) forces executives to behave in certain ways, regardless of their personal preferences or values. Capitalism has become more competitive over time, not less (thanks to technology, globalization, privatization, and improved management skills). Even very large global companies face competition that is unforgiving and ruthless.
 8. **The condition of the natural environment is crucial to our prosperity.** The environment is both a source of direct ecological benefits (fresh air, open spaces, recreation, and so on) and a source of raw materials for production. The economy cannot continually run down the quality of the environment without humans eventually paying an enormous economic price. Developing sustainable practices (to stabilize and preserve environmental quality) is an urgent economic priority.
 9. **The financial industry is not, in itself, productive.** Financial institutions can play a useful role in facilitating investment and production by companies in the real economy. But this function

may be overwhelmed by pointless, wasteful, or downright destructive financial activity. Speculators seek to profit from the purchase and resale of paper assets, rather than from the production of useful goods and services.

10. **Government has played a central, supporting role since the beginning of capitalism.** Government is not the “enemy” of free-market capitalism. In fact, without government capitalism wouldn’t exist at all. Government actions and programs have tended to reinforce and stabilize the basic relationships of capitalism: guaranteeing private property rights, supplying business with needed inputs (like reliable infrastructure and skilled, disciplined workers), expanding markets, and managing social relationships in a way that promotes both stability and profitability. At the same time, working people – thanks to their sheer numbers – can use democratic openings to force governments to respond to *their* needs and priorities, but only when they are sufficiently motivated and well-organized.
11. **Globalization can strengthen an economy, or it can weaken an economy.** Globalization is not new. But modern globalization is inherently biased in favour of corporations and investors. Free-trade agreements and other aspects of globalization give them more mobility and more power, while limiting the ability of national governments to regulate international flows of goods and capital. In contrast to free-trade theory (which claims globalization benefits everyone who participates), globalization may help or hurt a national economy. It can increase or decrease demand for a country’s products (via the trade balance), and it can strengthen or weaken investment (via capital flows). A country’s competitiveness determines whether globalization is helpful or harmful.
12. **Workers and poor people get only as much from the economy as they are able to demand, fight for, and win.** There is no reason to believe that the success of capitalists will ever naturally “trickle-down” into improved living standards for the bulk of humanity. Neoclassical theories which claim that everyone gets paid according to their productivity are theoretically inconsistent and empirically false. Income distribution is determined by power, more than markets. Demanding a fairer deal from the

system, and building the organizational and political power to back-up that demand (through unions and other social justice movements), is the only way to redivide the pie. And if those demands come up against a hard limit in the form of the system's willingness or ability to meet them, then the time will have come to look at alternatives.

On that note, this is a good time to put down this book, put on your boots – and go out to organize for a fairer share of the pie that you work so hard to produce.