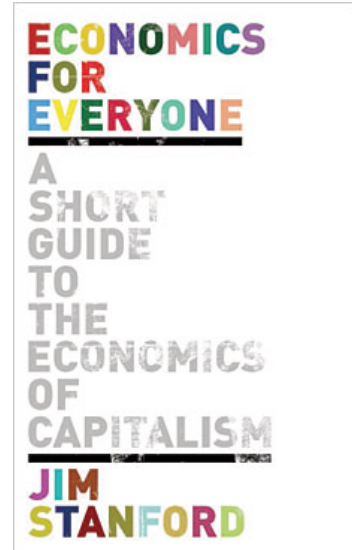


# ECONOMICS FOR EVERYONE:

## ON-LINE GLOSSARY OF TERMS & CONCEPTS

By Jim Stanford

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This glossary contains non-technical descriptions of all the terms in *Economics for Everyone* highlighted in **SMALL CAPITALS**. Italicized terms within the definitions are themselves defined elsewhere in the glossary, for cross-reference.

**Absolute Poverty:** Poverty defined with respect to an absolute material standard of living. Someone is absolutely poor if their income does not allow them to consume enough to purchase a minimum bundle of consumer goods and services (including shelter, food, and clothing). An alternative approach is to measure *relative poverty*.

**Accelerator, Investment:** Investment spending stimulates economic growth, which in turn stimulates further investment spending (as businesses enjoy stronger demand for their products). This positive feedback loop (investment causes growth which causes more investment) is called the accelerator.

**Allocative Efficiency:** A neoclassical concept referring to the allocation of productive resources (capital, labour, etc.) in a manner which best maximizes the well-being (or “utility”) of individuals.

**Automatic Stabilizers:** Government *fiscal policies* which have the effect of automatically moderating the cyclical ups and downs of capitalism. Examples include income taxes (which collect more or less taxes depending on the state of the economy) and unemployment insurance benefits (which automatically replace lost income for people who lose their jobs).

**Balanced Budget:** An annual budget (such as for a government) in which revenues perfectly offset expenditures, so that there is neither a *deficit* nor a *surplus*.

**Balanced Budget Laws:** Laws (usually passed by right-wing governments) which require governments to run balanced budgets regardless of the state of the overall economy. These laws

have the negative effect of worsening economic downturns – since governments either must reduce spending or increase taxes during a recession, in order to offset the impact of the recession on its budget, and those fiscal actions deepen the recession.

**Bank for International Settlements:** An international financial regulatory organization based in Berne, Switzerland, which designs international regulations regarding *capital adequacy* and other banking practices. The BIS is governed by government appointees from the world's largest capitalist economies.

**Banking Cycle:** An economic cycle which results from cyclical changes in the attitudes of banks toward lending risk. When economic times are good, bankers become optimistic that their loans will be repaid, and hence they expand their lending. More credit means even stronger economic times, and so on. The opposite occurs when the economy becomes weaker: bankers begin to fear more defaults on their loans, hence they issue fewer loans, and hence the economy weakens even further.

**Banks:** A company that accepts deposits and issues new loans. It makes profit by charging more interest for the loans than it pays on the deposits, as well as through various service charges. By issuing new loans (or *credit*), banks create new money which is essential to promoting economic growth and job creation.

**Barter:** A form of trade in which one good or service is exchanged directly for another, without the use of money as an intermediary.

**Bond:** A financial security which represents the promise of its issuer (usually a company or a government) to repay a loan over a specified time period, at a specified rate of interest. The bond can then be bought and sold to other investors, over and over again. When the rate of interest falls, bond prices rise (and vice versa) – since when interest rates are lower, the bond's promise to repay interest at the specified fixed rate becomes more valuable.

**Capacity Utilization:** A company or economy's capacity represents the maximum amount of output it can produce. The rate of capacity utilization, therefore, represents the proportion of capacity that is actually used in production. When capacity utilization is high (so that a facility is being used fully or near-fully), pressure grows for new investment to expand that capacity. Also, high capacity utilization tends to reduce the unit cost of production (since capital assets are being used more fully and efficiently).

**Capital:** Broadly defined, capital represents the tools which people use when they work, in order to make their work more productive and efficient. Under capitalism, capital can also refer to a sum of money invested in a business in hopes of generating profit. (See also: *circulating capital, fixed capital, human capital, machinery and equipment, physical capital, and structures.*)

**Capital Adequacy:** Capital adequacy rules are loose regulations imposed on private banks, in hope of ensuring that they have sufficient internal resources (including the money invested by the bank's own shareholders) to be able to withstand fluctuations in lending and profitability.

**Capital Flight:** A destructive process in which investors (both foreigners and domestic residents) withdraw their financial capital from a country as a result of what are perceived to be non-favourable changes in economic policies, political conditions, or other factors. The consequences of capital flight can include a contraction in real investment spending, a dramatic depreciation in the exchange rate, and a rapid tightening of credit conditions. Developing countries are most vulnerable to capital flight.

**Capital Gain:** A capital gain is a form of profit earned on an investment by re-selling an asset for more than it cost to buy. Assets which may be purchased for this purpose include stocks, bonds, and other financial assets; real estate; commodities; or fine art.

**Capitalism:** An economic system in which privately-owned companies and businesses undertake most economic activity (with the goal of generating private profit), and most work is performed by employed workers who are paid wages or salaries.

**Capitalist Class:** The group of individuals (representing just a couple of percent of the population in advanced capitalist countries) which owns and controls the bulk of private corporate wealth, and which as a result faces no compulsion to work in order to support themselves.

**Carbon Tax:** An *environmental tax* which is imposed on products which utilize carbon-based materials, and hence contribute to greenhouse gas pollution (including oil, gas, coal, and other fossil fuels). The level of the tax should depend on the carbon (polluting) content of each material.

**Central Bank:** A public financial institution, usually established at the national level and controlled by a national government, which sets short-term interest rates, lends money to commercial banks and governments, and otherwise oversees the operation of the credit system. Some central banks also have responsibility for regulating the activities of private banks and other financial institutions.

**Central Planning:** An economic system in which crucial decisions regarding investment, consumption, interest rates, exchange rates, and price determination are made by central government planners (rather than determined by market forces).

**Class:** The different broad groups in society, defined according to what work they do, their wealth, their degree of control over production, and their general role in the economy.

**Classical Economics:** The tradition of economics that began with Adam Smith, and continued with other theorists including David Ricardo, Thomas Malthus, Jean-Baptiste Say, and others. The classical economists wrote in the early years of capitalism, and they uniformly celebrated the productive, innovative actions of the new class of industrial capitalists. They focused on the dynamic economic and political development of capitalism, analyzed economics in class terms, and advocated the labour theory of value.

**Climate Change:** As a consequence of the cumulative emission of carbon dioxide (a by-product of fossil fuel use) and other chemicals over the past two centuries, the concentration of these gases in the global atmosphere is growing dramatically. These chemicals capture more solar energy within the atmosphere, and hence average global temperatures are rising – by about a full degree Celsius (on land) over the past half-century. The rise in global temperatures is causing many serious consequences, including changes in rainfall, rising sea levels, extreme weather and storms, and changes in plant and animal habitats.

**Commodity:** Anything that is bought and sold for money is a commodity – including produced goods and services, inputs (such as capital or raw materials), and even labour.

**Comparative Advantage:** A theory of international trade that originated with David Ricardo in the early 19<sup>th</sup> Century, and is maintained (in revised form) within *neoclassical economics*. The theory holds that a national economy will specialize through international trade in those products which it produces relatively most efficiently. Even if it produces those products less efficiently (in absolute terms) than its trading partner, it can still prosper through foreign trade. The theory depends on several strong assumptions – including an absence of international capital mobility, and a *supply-constrained* economy.

**Competition:** Competition occurs between different companies trying to produce and sell the same good or service. Companies may compete with each other for markets and customers; for raw materials; for labour; and for capital.

**Conditionality:** International financial institutions (like the *World Bank* and the *International Monetary Fund*) often attach strong conditions to emergency loans they make to developing countries experiencing economic and financial crises. These conditions require the borrowing countries to follow strict *neoliberal* policies, such as reducing government spending and deficits; unilaterally opening markets to foreign trade; and privatizing important public assets.

**Consumer Price Index:** The consumer price index (CPI) is a measure of the overall *price level* paid by consumers for the various goods and services they purchase. Retail price information is gathered on each type of product, and then weighted according to its importance in overall consumer spending, to construct the CPI. Monthly or annual changes in the CPI provide a good measure of the rate of consumer price *inflation*.

**Consumption:** Goods and services which are used for their ultimate end purpose, meeting some human need or desire. Consumption can include private consumption (by individuals, financed from their personal incomes) or public consumption (such as education or health care – consumption organized and paid for by government). Consumption is distinct from *investment*, which involves using produced goods and services to expand future production.

**Corporation:** A corporation is a form of business established as an independent legal entity, separate from the individuals who own it. A major benefit, for the owners, of this form of business is that it provides for *limited liability* for its owners: potential losses resulting from their ownership of the company (should it lose money, face legal difficulties, or experience other problems) are limited to the amount initially invested by the owners. The owners' other personal wealth is kept separate and protected from claims against the corporation. The corporation is thus well-suited to the *joint stock* form of ownership.

**Corporatism:** A system for managing wage determination and income distribution, in which wage levels are determined centrally (across industries or even entire countries) on the basis of productivity growth, profitability, and other parameters, following some process of consultation or negotiation involving unions, employers, and often government. Variants of this system are used commonly in Scandinavia, parts of continental Europe, and parts of Asia.

**Cost of Job Loss:** When a worker is laid off or fired, they experience a significant out-of-pocket cost. That cost of job loss depends on how much they were earning in their job, how long it takes them to find a new job, the level of unemployment benefits they are entitled to, and the level of their pay in the new job. The higher the cost of job loss, the more employers will be able to threaten and discipline their workers. Cutting unemployment insurance has been one key *neoliberal* strategy for increasing the cost of job loss.

**Counter-Cyclical Policies:** Governments can take many different actions to offset the ongoing booms and busts of the private-sector economy. These policies include fiscal policies (increasing government spending when the economy is weak), monetary policies (cutting interest rates when needed to stimulate more spending), and social policies (like unemployment insurance) to maintain household incomes and spending even in a downturn.

**Credit:** The ability to purchase something without immediately paying for it – through a credit card, a bank loan, a *mortgage*, or other forms of credit. The creation of credit is the most important source of new money, and new spending power, in the economy.

**Credit Squeeze:** At times private banks become reluctant to issue new loans and credit, often because they are worried about the risk of default by borrowers. This is common during times of *recession* or financial instability. A credit squeeze can dramatically slow down economic growth and job-creation.

**Debt:** The total amount of money owed by an individual, company or other organization to banks or other lenders is their debt. It represents the accumulated total of past borrowing. When it is owed by government, it is called public debt, and it represents the accumulation of past budget deficits.

**Debt Burden:** The real economic importance of a debt depends on the interest rate that must be paid on the debt, and on the total income of the consumer or business that undertook the loan. For public debt, the most appropriate way to measure the debt burden is as a share of national GDP.

**Deficit:** When a government, business, or household spends more in a given period of time than they generate in income, they incur a deficit. A deficit must be financed with new borrowing, or by running down previous savings.

**Defined Benefit Pensions:** A pension plan that pays a specified monetary benefit, usually based on a pensioner's years of service and their income at the time of retirement.

**Defined Contribution Pensions:** A pension plan that makes no specified promise about the level of pension paid out after retirement. Instead, a pensioner's income depends on the amount of money accumulated in a pre-funded retirement account, on investment returns, and on interest rates at the time of retirement.

**Deflation:** A decline in the overall average level of prices. Deflation is the opposite of *inflation*.

**Demand-Constrained:** An economy is demand-constrained when the level of output and employment is limited by the amount of overall demand (or spending) on its products. The capitalist economy is usually demand-constrained. Only rarely is the economy *supply-constrained*: that is, limited by the availability of workers and other productive resources.

**Depreciation:** This represents the loss of value from an existing stock of real *capital* (for an individual company or for the whole economy), reflecting the normal wear-and-tear of machinery, equipment, and infrastructure. A company or country must invest continuously just to offset depreciation, or else its capital stock will gradually run down.

**Depression:** A depression is a very deep, long, and painful recession, in which unemployment rises to very high levels, and economic output does not bounce back.

**Derivatives:** A derivative is a financial asset whose resale value depends on the value of other financial assets at different points in time. Its value is thus "derived" from the value of other financial assets, and is hence very difficult to predict. Examples of derivatives include futures, options, and swaps.

**Development:** Economic development is the process through which a country's economy expands and improves in both quantitative and qualitative terms. Economic development requires the coming together of several different processes and conditions: the accumulation of real capital; the development of education, skills, and human capacities; improvements in governance, democracy, and stability; and changes in the sectoral make-up of the economy.

**Discretionary Fiscal Policy:** Some government taxing and spending programs can be adjusted by government in response to changing economic circumstances. These discretionary measures (increasing or decreasing particular taxes or spending) are usually used as a *counter-cyclical policy*.

**Discrimination:** As a result of racist and sexist attitudes, and deliberate efforts of employers to play off groups of workers against each other, different groups of people (defined and divided by gender, ethnicity, language, ability, or other factors) experience very different economic opportunities and incomes.

**Distribution:** The distribution of income reflects the process by which the real output of goods and services produced by the economy is allocated to different individuals and groups of people. Distribution can be measured across individuals (comparing high-income and low-income households), or across classes (comparing the incomes of workers, small businesses, and capitalists).

**Dividends:** Many companies pay a cash dividend (quarterly or annually) to the owners of its shares. This is an enticement to investors to purchase that company's shares, and represents a way of distributing some of a company's profits to its ultimate owners. Individual investors can capture profits in other ways, as well – such as through *capital gains*.

**Economic Growth:** Economic growth is the expansion of total output produced in the economy. It is usually measured by the expansion of *real GDP*.

**Economies of Scale:** Most economic production requires the producing firm or organization to make an initial investment (in real capital, in engineering and design, in marketing) before even the first unit of production occurs. As total production then grows, the cost per unit of that initial investment shrinks. For this reason, most industries demonstrate economies of scale, whereby the unit cost of production declines as the level of output grows. Because of economies of scale, larger companies have an advantage in most industries, and the economy usually operates more efficiently when it is busy and growing (than when it is shrinking or stagnant).

**Effective Demand:** The theory of effective demand was developed separately in the 1930s by John Maynard Keynes and Michal Kalecki. It explains why the capitalist economy is normally limited by the total amount of spending (that is, the economy is *demand-constrained*), and hence why unemployment almost always exists.

**Employment:** Employment is a specific form of work, in which the worker performs their labour for someone else in return for a money wage or salary.

**Employment Rate:** This measures the share of working age adults who are actually employed in a paying position. The employment rate can be a better indicator of the strength of labour markets than the *unemployment rate* (since the unemployment rate depends on whether or not a non-working individual is considered to be “in” the labour force).

**Enclosures:** A historic process in Britain and other European countries, in the very early years of capitalism, in which lands formerly held and used in common were fenced off and formally assigned to private owners. This painful and often violent process was essential to the creation of a landless, desperate new class of people who were compelled to work in the new industrial factories.



**Environment:** The natural environment is an essential aspect of the economy, whose influence is felt in several different ways. Everyone relies on the direct ecological benefits that come from nature: fresh air, clean water, space, climate. And every industry relies on natural resources which are used as necessary inputs to production (land, minerals, forestry and agriculture, energy, and other materials). Finally (and unfortunately), most economic activities involve the creation of some waste and pollution which is expelled back into the environment.

**Environmental Taxes:** Taxes which are imposed on particular activities, or particular products, which are considered to be especially damaging to the environment, with the goal of changing economic behaviour and reducing pollution. A *carbon tax* is an important example of an environmental tax.

**Equilibrium:** In neoclassical economics, equilibrium exists when supply equals demand for a particular commodity. *General equilibrium* is a special (purely hypothetical) condition in which every market (including markets for both *final products* and *factors of production*, the latter including labour) is in equilibrium.

**Equity:** The proportion of a company's total assets which are "owned" outright by the company's owners. A company's equity is equal to its value less its debt owed to bankers, bondholders, and other lenders.

**Exchange Rate:** The "price" at which the currency of one country can be converted into the currency of another country. A country's currency is "strong," or its exchange rate is "high," if it can purchase more of another country's currency. A country's currency appreciates when its value (compared to other currencies) grows; it depreciates when its value falls.

**Exports:** An export is the sale of a product from one country (either a good or a service) to a purchaser in another country.

**Externalities:** Many economic activities have collateral effects (sometimes positive, but more often negative) on other people who are not directly involved in that activity. Examples of externalities include pollution (which imposes a cost on the natural environment and everyone who uses it), congestion (which slows down travel and productivity), and the spill-over impacts of major investment or plant closure decisions.

**Factors of Production:** The basic productive resources (labour, capital, and natural resources) that are essential inputs to every economic activity.

**Feudalism:** A type of economy (such as that in Europe in the Middle Ages) that is primarily agricultural, but productive enough to support a class of artisans and merchants. Feudal societies are composed of two main social classes: nobles and peasants. The nobility extracted the agricultural *surplus* from peasants through a system of tradition, mutual obligation, and (when necessary) brute force.

**Final Products:** Products (either goods or services) which are intended for final consumption. They are distinct from *intermediate products*, which are products used in the production of other products (such as raw materials, capital goods, or producer services).

**Finance:** Monetary purchasing power, typically created by a bank or other financial institution, which allows a company, household, or government to spend on major purchases (often on capital assets or other major purchases).

**Financialization:** The trend under neoliberalism through which real production in the economy is accompanied by an increasing degree of financial activity and intermediation (including various forms of lending, financial assets, and *securitization*). One way to measure financialization is by the ratio of total financial assets to real capital assets in an economy.

**Fiscal Policy:** The spending and taxing activities of government constitute its fiscal policy.

**Fixed Capital:** Real *capital* which is installed permanently in a specific location, including buildings, infrastructure, and major machinery and equipment.

**Flat-Rate Tax:** A form of income tax in which every taxpayer pays the same rate of tax on their personal income, regardless of their income level. It differs from a *progressive tax*, in which higher-income individuals pay a higher rate of tax.

**Foreign Direct Investment:** An investment by a company based in one country, in an actual operating business, including real physical capital assets (like buildings, machinery and equipment), located in another country.

**Foreign Exchange:** The process by which the currency of one nation is converted into the currency of another country.

**Formal Economy:** The sector of the economy which produces goods and services in return for monetary payment, and is fully integrated into the formal structures (including tax systems) of the economy. It is distinct from the *informal economy*, in which production and exchange occurs on a non-monetary, subsistence, or barter basis.

**Fractional Reserve System:** A banking system in which private banks are required to hold a specified proportion of assets on hand in their banks, to underpin a much larger amount of lending to the bank's customers.

**Free Trade Agreements:** An agreement between two or more countries which eliminates tariffs on trade between the countries, reduces non-tariff barriers to trade, cements rights and protections for investors and corporations, and takes other measures to guarantee a generally liberalized, pro-business economic environment.

**Full Employment:** A condition in which every willing worker is able to find a paying job within a very short period of time, and hence unemployment is near zero.

**General Equilibrium:** Neoclassical economics assumes that production, employment, investment, and income distribution are all determined by a condition of *equilibrium* (with demand equalling supply) in every single market (including markets for both *factors of production* and produced goods and services).

**Gini Coefficient:** A statistical measure of inequality. A Gini score of 0 implies perfect equality (in which every individual receives the same income). A Gini score of 1 implies perfect inequality (in which one individual receives all of the income).

**Globalization:** A generalized historical process through which more economic activity takes place across national borders. Forms of globalization include international trade (*exports* and *imports*), *foreign direct investment*, international financial flows, and international *migration*.

**Goods:** Tangible products which are produced in the economy – including agricultural products, natural resources, manufactured goods, and construction.

**Government Production:** Some production in the economy is undertaken directly by governments (or various kinds of government agencies) in order to meet public needs (as distinct from the production for profit which is undertaken by private companies). Examples of government production include education, health care, policing, and other public services.

**Greenhouse Gases:** Greenhouse gases trap more heat from the sun near the earth's surface. Carbon dioxide is the major greenhouse gas, but other forms of pollution (including methane and nitrous oxide) also contribute to global warming. Because of the long-run accumulation of greenhouse gases after centuries of industrial pollution, the planet's average temperature is rising notably, causing *climate change*, severe weather, rising sea levels, and other major effects.

**Gross Domestic Product:** The value of all the goods and services produced for money in an economy, evaluated at their market prices. Excludes the value of unpaid work (such as caring reproductive labour performed in the home). GDP is calculated by adding up the *value-added* at each stage of production.

**Gross Domestic Product, Deflator:** A price index which adjusts the overall value of GDP according to the average increase in the prices of all output. The GDP deflator equals the ratio of nominal GDP to real GDP.

**Gross Domestic Product, Per Capita:** The level of GDP divided by the population of a country or region. Changes in real GDP per capita over time are often interpreted as a measure of changes in the average standard of living of a country, although this is misleading (because it doesn't account for differences in the *distribution* of income across *factors of production* and individuals, and it doesn't consider the value of unpaid labour).

**Heterodox Economics:** Various schools of thought (including post-Keynesian, structuralist, Marxian, and institutionalist economics) which reject the precepts of dominant *neoclassical* theory.

**Hoarding:** A situation in which financial investors, companies, or individual consumers choose to hold hoards of cash or other liquid assets, rather than spending and re-spending that money. Hoarding often results from intense fears about future economic and financial turbulence – yet ironically hoarding can create the very recession which hoarders fear!

**Households:** The basic unit of individual economic behaviour. Households offer labour supply to the labour market, earn income (from employment and other sources), make consumer purchases, and care for each other through unpaid labour within the home.

**Hyper-Inflation:** A situation of extremely rapid inflation (reaching 100% per year or more), often resulting from a condition of economic or political breakdown.

**Imports:** Goods or services which are produced in a foreign country and purchased domestically. Imports include money spent on vacations or purchases in foreign countries.

**Industrial Policy:** Government policies aimed at fostering the domestic development of particular desirable or productive industries, in order to boost productivity, create higher-paid jobs, and enhance international trade performance. Tools of industrial policy can include measures to stimulate investment in targeted industries; trade policies (such as tariffs, export incentives, or limits on imports); and technology policies.

**Inequality:** The *distribution* of income across individual households typically demonstrates inequality between higher-income and lower-income households.

**Inflation:** A process whereby the average *price level* in an economy increases over time.

**Informal Economy:** The informal sector of the economy represents the production of goods and services for the own-use of the producers, or for informal or “underground” trade in particular communities (as opposed to the *formal economy*). It is particularly important in developing countries.

**Innovation:** Producers (including private companies) will endeavour to develop new products (new goods or services) and new processes (new ways of producing those goods or services), with the goal (in a capitalist context) of enhancing market share and hence profitability. More generally, innovation simply refers to finding better ways to produce better goods and services.

**Institutionalist Economics:** A school of *heterodox* economics which emphasizes the importance of institutional development and evolution (as opposed to “pure” market forces) in explaining economic and social development.

**Interest:** A lender charges interest as the price of lending money (or some other asset) to a borrower. Interest is typically charged as a specified percentage of the loan’s value, per specified time period (eg. percent per year).

**Intermediate Products:** Products (including both goods and services) which are not produced in order to be consumed, but rather are produced in order to be used in the production of some other good or service. Capital goods and raw materials are examples of intermediate products.

**International Monetary Fund:** An international financial institution established after World War II with the goal of regulating and stabilizing financial relationships among countries, and ensuring free flow of finance around the world economy. Based in Washington, D.C., it is governed by a system which grants disproportionate influence to the wealthier economies (based on their contribution to the Fund's operating resources).

**Investment:** Investment represents production which is not consumed, but rather is utilized in the production of other additional output. Investment also represents an addition to the *capital* stock of an economy.

**Joint Stock:** A form of business in which the company's assets are jointly divided among a large number of different individual owners, each of whom owns a specified share of the company's total wealth. Joint stock companies are governed by a weighted voting system in which investors' influence depends on the number of shares they own.

**Labour Discipline:** Employers are interested in maximizing the extent to which employees expend effort and "follow the rules" in the workplace. The degree of labour discipline reflects the *cost of job loss* and other measures of employers' power over their workers.

**Labour Extraction:** Most employees under capitalism are paid according to the time they spend at work. But employers then face a challenge to extract genuine labour effort from their workers while they are on the job. Employer labour extraction strategies utilize a combination of labour discipline, supervision, technology (to control and monitor work), and threat of dismissal.

**Labour Force:** The total population of working-age people who are willing and able to work, and who hence have "entered" the labour market. The labour force includes individuals who are employed, and those who are "actively" seeking employment.

**Labour Intensity:** The ratio of labour effort expended, compared to total on-the-job compensated labour time. A higher ratio of labour intensity reflects a more successful employer *labour extraction* strategy.

**Labour Market Segmentation:** Deep and systematic differences among various groups of workers, in which different types of workers are effectively "assigned" to different types of jobs (reflecting differing productivity and income opportunities). Typically, access to different segments of the labour market is organized on grounds of gender, race, ethnicity, or age.

**Labour Supply:** The total number of workers available and willing to work in a paid position; usually measured by the *labour force* (although the labour force usually excludes many workers who do not officially qualify as "actively" seeking work, but who can nevertheless be mobilized into employment if necessary).

**Long Waves:** Longer-term periods of growth or stagnation in the economy, that can last for a decade or more and reflect broader changes in technology, politics, and international relations. For example, most developed capitalist countries experienced a long wave of economic expansion after World War II (the “Golden Age”), followed by a long period of stagnation during the 1980s and 1990s.

**Machinery and Equipment:** One form of *fixed capital* asset, consisting of machines, computers, transportation equipment, assembly lines, and other equipment. Economists believe that investment in machinery and equipment is very important to productivity growth.

**Macroeconomics:** The study of aggregate economic indicators such as GDP growth, employment, unemployment, and inflation. Conventional economics makes a distinction between macroeconomics and *microeconomics* (the study of individual businesses or industries).

**Managers:** Top managers and directors of larger companies who are assigned the task of initiating and organizing production, disciplining workers, and accounting to shareholders for the performance of the business.

**Market Income:** A household’s total pre-tax income obtained from its activities in the formal economy, including wages and salaries, investment income, and small business profits. Excludes government *transfer payments*.

**Market Socialism:** A form of *socialism* in which productive companies are owned through public or non-profit forms, but relate to each other through markets and competition (with little or no *central planning*).

**Mercantilism:** An economic theory from pre-capitalist times which held that a country’s prosperity depended on its ability to generate large and persistent surpluses in its foreign trade with other countries.

**Microeconomics:** The study of the economic behaviour of individual “agents” such as particular companies, workers, or households.

**Migration:** The movement of human beings from one country or region to another. Sometimes migration is motivated by economic factors (such as the search for employment), sometimes by other forces (such as war, natural disaster, or famine).

**Monetarism:** Strictly speaking, monetarism was a right-wing economic theory (associated with the work of Milton Friedman, in particular) which believed that inflation could be controlled or eliminated by strictly controlling, over long periods of time, the growth of the total supply of money in the economy. This theory was proven wrong in the 1980s (when it became clear that it is impossible, in a modern financial system, to control the supply of money). More broadly, monetarism believes that inflation is a major danger to economic performance, and should be controlled through disciplined policies; modern “quasi-monetarists” agree with this view, but now use high interest rates (rather than *monetary targeting*) to indirectly regulate the money supply.

**Monetary Policy:** Monetary policy reflects the use by government and government agencies (especially the *central bank*) of interest rate adjustments and other levers (such as various banking regulations) to influence the flow of new *credit* into the economy, and hence the rate of economic growth and job-creation. A “tight” monetary policy tries to reduce the growth of new credit (through higher interest rates); a “loose” monetary policy tries to stimulate more credit-creation and hence growth.

**Monetary Targeting:** A policy which attempts to directly limit the growth in the total supply of money in the economy. It was the main policy tool used by strict *monetarists*. This policy approach failed in the 1980s, when it became clear that the supply of money could not be directly controlled by a central authority.

**Money:** Broadly speaking, money is anything that can be used as a means of payment (for example, to settle a debt). It includes actual currency, bank deposits, credit cards and lines of credit, and various modern electronic means of payment.

**Mortgage:** A mortgage is a special kind of credit, usually longer-term in duration, used to finance the construction or purchase of property or a long-lasting structure (such as a home or building).

**Multinational Corporation:** A multinational corporation (MNC) is a company which directly undertakes productive facilities or operations in more than one country. *Foreign direct investment* is the act of investing in, or expanding, those actual productive operations in other countries.

**Multiplier:** An initial stimulus to spending (in the form of new business, consumer, or government purchases) usually results in a larger final increase in total spending, production, and employment in the economy. This magnifying effect is called the multiplier. The strength of the multiplier depends on many factors, including the type of initial spending, the importance of imports in spending, and the amount of unused capacity that initially existed in the economy.

**Mutual Fund:** A financial vehicle which involves pooling investments in the shares of many different *joint stock* (or publicly traded) companies, in order to reduce the risk and overhead costs associated with investing in corporate *shares*. An investor buys a unit in the mutual fund, and receives a pro-rated portion of the fund’s total income (including both *dividends* and *capital gains*).

**Natural Monopoly:** In some industries, *economies of scale* are so strong that it makes most economic sense for there to be only one supplier. This type of industry is considered a natural monopoly, since competition will eventually tend to concentrate output in one producer (and this is, in any event, the most efficient way to organize production). Governments usually attempt to oversee the operation of natural monopolies through either public ownership or regulation.

**Natural Rate of Unemployment:** According to *neoclassical economics*, the wage rate is determined by a process of labour-market clearing (in which workers and employers compete with each other, ensuring that *labour supply* equals labour demand). Why, then, do we almost always observe *unemployment*? Neoclassical theorists argue that observed unemployment reflects frictional, structural, or disguised effects that are consistent with labour market clearing. In other words, this “natural” level of unemployment is, in fact, *full employment*. It is fruitless, in this view, to try to reduce unemployment below this natural level: misguided attempts to do so only create inflation. Unions, minimum wages, and other “market-inhibiting” measures will tend to increase the natural rate of unemployment.

**Neoclassical Economics:** Neoclassical economics is the dominant approach to economics currently taught and practiced in most of the world (and especially dominant in Anglo-Saxon countries). It attempts to explain the behaviour of the economy on the basis of competitive, utility-maximizing behaviour by companies, workers, and consumers. Their actions in the markets for both *factors of production* and *final products* will ensure that all available resources are fully utilized (that is, the economy is *supply-constrained*) and every factor is paid according to its *productivity*.

**Neoliberalism:** A modern, more harsh incarnation of *capitalism* which became dominant globally beginning in the early 1980s, largely as a reaction to international economic and political problems encountered at the end of the postwar “Golden Age.” Neoliberal policies have emphasized deregulation (including of labour markets), privatization, *globalization*, and strict *monetary policy*.

**Nominal GDP:** Nominal gross domestic product measures the total value of all the goods and services produced and traded for money in the formal economy, evaluated at their current money prices. Nominal GDP can grow from one period to the next because of an increase in actual (*real*) output, and/or because of an increase in average prices (that is, as a result of *inflation*).

**Non-Accelerating-Inflation Rate of Unemployment (NAIRU):** This theory is a variant of the neoclassical *natural rate of unemployment*. As in original natural rate theory, NAIRU advocates believe that unemployment cannot be reduced below a certain level without sparking a continuous acceleration in *inflation*. Unlike the original natural rate theory, however, the NAIRU doctrine does not strictly define this position as “full employment.” The policy prescriptions of the natural rate and NAIRU theories are practically identical (namely, don’t try to reduce unemployment through demand-side measures, but instead attack unions and minimum wages to allow labour markets to function more “efficiently”).

**Non-Tradeable:** Some products cannot be transported over long distances, or otherwise sold to consumers from far-off locations. These products (including some goods and most services) are hence considered non-tradeable: they must be consumed near to where they are produced. Non-tradeable products include most construction, some manufacturing (such as highly perishable or extremely bulky products), most private services, and nearly all public services.



**Paradox of Thrift:** An individual household, business, or government may attempt to save money by reducing their current expenditures. However, those attempts to save, once amalgamated at the level of the overall economy, may reduce aggregate spending levels and hence output and employment, thus undermining overall growth or even causing a recession. If this occurs, the revenue of households, businesses, and governments will decline, and overall saving may end up no higher (and potentially be even lower) than before the effort to boost savings. Because of this paradox, it is not usually possible to improve economic performance by boosting saving.

**Participation Rate:** The proportion of working-age individuals who decide to “participate” in the *labour force*, by either being employed or actively seeking work. The precise definition of what constitutes “actively seeking work” varies from one country to another, and this can affect measurements of the labour force and unemployment.

**Pay-As-You-Go Pension:** A pay-as-you-go pension plan sponsor simply pays for pension benefits to retired plan members out of its current incoming revenues. Many government pension plans are funded on a pay-as-you-go (or “paygo”) basis, with pension benefits financed directly from current taxes. It is difficult for private companies to pay for pensions on this basis, however, since their long-term revenue streams are not as reliable as governments’. For this reason, many private employers use (or are required to use) *pre-funded pensions*.

**Payroll Tax:** A tax levied on current employment or payrolls (collected either as a fixed amount per employee, or as a percentage of total wages and salaries paid). Payroll taxes are most commonly used to finance employment-related social programs, such as pension or unemployment insurance programs.

**Pensions:** Pension benefits are paid to individuals who have retired from active employment, in order to support themselves in the last years of their lives. Pension programs can be sponsored by governments or by individual employers; they can be based on pre-retirement years of service and wage levels, or paid on a universal per-person basis.

**Perfect Competition:** An abstract assumption, central to *neoclassical economics*, in which companies are so small that none can influence total output or price levels in an industry, none can distinguish its products from those of competing firms, and none can anticipate or interact with the actions of its competitors. Perfect competition has never existed in real life; it is a theoretical assumption developed solely in order to defend the internal logical integrity of neoclassical economic theories.

**Physical Capital:** A tangible tool, building, machine, or other productive asset which is used to produce other goods or services.

**Physiocrats:** A very early school of economics (originating in France in the 18<sup>th</sup> Century) which likened the interactions between different sectors and classes of the economy, and the monetary flows between them, to the circulation of blood through the human body.

**Pollution:** Many economic activities involve the discharge of waste products (including solid waste, air pollution, and water pollution) into the natural environment, as a negative side-effect of production.

**Post-Keynesian Economics:** A modern *heterodox* school of economic thought which emphasizes the more non-neoclassical or radical aspects of John Maynard Keynes' theories. Post-Keynesians pay primary attention to the monetary system, and the impact of monetary behaviour and policies on employment, output, and other economic indicators.

**Poverty:** A state of having inadequate income or other resources to support a household or group of households at a basic standard of living. Poverty can be measured in *absolute* or *relative* terms.

**Poverty Rate:** The proportion of individuals or households in a jurisdiction which are defined as poor, according to either *absolute* or *relative* definitions of poverty.

**Pre-Funded Pension:** A pension plan in which funds are accumulated and invested throughout an individual's working life in order to pay for the subsequent disbursement of pension benefits after that person has retired. Pre-funded pensions can be individual or collective (ie. pooled) in nature; individual pre-funded pensions are similar to individual savings accounts.

**Preferences:** According to neoclassical economic theory, individuals' preferences regarding the sorts of consumer goods they most enjoy will exercise an ultimate influence on both the composition of output in the economy, and the prices paid for *final products* and *factors of production*.

**Price Level:** The overall average level of nominal prices in the economy can be calculated, most often as a weighted average of the prices of individual goods and services (with weightings reflecting the importance of each product in overall spending or output). Price levels can be calculated for consumer spending, for wholesale trade, for producer inputs, or for any other category of production. The most common measures of the overall price level are the *consumer price index* and the *gross domestic product deflator*.

**Primary Products:** Products which are harvested directly from the natural environment, with minimal subsequent processing, are considered primary products. These typically include agricultural, fishing, forestry, mineral, and energy products.

**Private Equity:** A form of business in which the company's entire equity base is owned by one or a small group of individual investors. Under the private equity model, the company does not issue *shares* onto the *stock market*, and hence is not usually required to release public financial statements or comply with other securities regulations. Private equity firms are generally considered to be more ruthlessly focused on generating shorter-term cash profits from their operations than *joint stock* companies.

**Product Markets:** The markets where produced goods and services are bought and sold (distinguished from markets for *factors of production*).

**Production:** The process by which human labour (or “work”) is applied, usually with the help of tools and other forms of *capital*, to produce useful goods or services.

**Production, for Profit:** Under *capitalism*, most production is undertaken by private companies (of various forms), with the goal of generating a *profit* to the company’s owners. Profit is attained when the company’s output is sold, generating revenue that exceeds the costs of production (including labour).

**Productivity:** In general, productivity measures the effectiveness or efficiency of productive effort. Productivity can be measured in many different ways. Physical productivity measures the actual amount of a good or service produced (eg. tons of steel, or number of haircuts). Productivity can also be measured in terms of the value of output. Most commonly, productivity is measured as the amount of output produced over a certain period of work (eg. output per hour); this is considered a measure of labour productivity. But other approaches are also possible, including measurements of capital productivity (output relative to the value or physical quantity of invested capital) and “total factor productivity” (which is an abstract statistical measurement of the overall effectiveness of production).

**Profit:** This is the surplus left over after a company sells its output, and pays off the cost of production (including labour costs, raw materials, and a proportional share of its capital equipment). Its calculation is: revenue – cost = profit.

**Program Spending:** Government spending which is undertaken to provide useful public programs. Program spending includes both direct *government production* of services (like health care or education), and *transfer payments* which are intended to supplement the income of households (through programs like unemployment insurance or public pensions). Program spending does not include government debt service charges.

**Progressive Tax:** A tax is considered progressive if a larger proportionate share of its total burden falls on individuals with higher average incomes.

**Public Goods:** True public goods are those which cannot be provided to one group of consumers, without being provided to any other consumers who desire them. Thus they are “non-excludable.” Examples include radio and television broadcasts, the services of a lighthouse, national security, and a clean environment. Private markets typically underinvest in the provision of public goods, since it’s very difficult to collect revenue from their consumers. More broadly, public goods can refer to any goods or services provided by government as a result of an inability of the private sector to supply those products in acceptable quantity, quality, or accessibility.

**Public Investment:** Real investment spending by government or public institutions on structures, infrastructure, machinery and equipment, and other real *capital*.

**Public-Private Partnerships (PPPs):** A form of financing public investment, and sometimes the direct provision of public services, in which finance is provided by private investors (in return for interest), and private firms are involved in the management of the construction or operation of the publicly-owned facility. PPPs have been heavily criticized for increasing the cost of public projects and generating undue profits for private investors.

**Real GDP:** The value of total gross domestic product (that is, all the goods and services produced for money in the economy) adjusted for the effects of inflation. In theory, real GDP represents the physical quantity of output.

**Real Interest Rate:** The interest rate on a loan, adjusted for the rate of inflation. The real interest rate represents the real burden of an interest payment. Real interest rates must be positive for the lender to attain any real income from the loan.

**Real Wages:** The value of wages, adjusted for the level of consumer prices. If the nominal value of wages is growing faster than consumer prices, then real wages are growing, and hence the real consumption possibilities offered to workers are improving.

**Recession:** A condition in which the total real GDP of an economy shrinks (usually, for at least two consecutive quarters).

**Recovery:** A condition in which real GDP begins to grow again, following a recession.

**Regressive Tax:** A tax in which lower-income individuals or households bear a proportionately greater burden of the tax. *Sales taxes* are generally considered regressive (since lower-income households do not generally save, and hence must pay the sales tax on a larger proportion of their total income).

**Relative Poverty:** A measure of poverty based on an individual or family's relative income compared to the overall average level of income in the economy as a whole. Relative poverty thresholds change over time with growth in overall income levels. Distinct from *absolute* measures of poverty, which are defined according to a specified level of real consumption.

**Relative Price:** The price of any product or commodity measured relative to the overall level of prices (for example, compared to the consumer price index).

**Reproduction:** The economic process of recreating the work force. Reproduction involves caring for one's self and one's family, and raising children.

**Retained Earnings:** Business profits which are not distributed to shareholders (through dividends or other payouts), but instead are retained within the company in order to finance future investment or other expenditures.

**Return on Equity:** A measure of business profitability equal to net after-tax income divided by the average level of shareholders' equity in the business.

**Sales Tax:** A tax imposed as a proportion of consumer spending on specified goods or services. Also known as a “value-added” tax.

**Saving:** The portion of income which is not spent on consumption. Saving can be undertaken by individuals and households, by businesses, or by governments.

**Securitization:** A process in which financial relationships (such as loans) are converted into financial securities or assets (such as bonds) which can be bought and re-sold in securities markets.

**Services:** A form of output which consists of a function performed for one person by another – such as cooking and serving a meal, teaching a lecture, completing a telephone call, or delivering a package. Distinct from *goods*.

**Shares:** Financial assets which represent the ownership of a small proportion of the total *equity* (or net wealth) of a corporation. Shares can be bought and sold on a *stock market*.

**Slavery:** An economic system in which most work is performed by individuals who are forcibly compelled to work with no formal compensation, under the control of a slave-owning elite.

**Social-Democracy:** A reformist political strategy which aims to win certain improvements in social and economic conditions under *capitalism*, without challenging the underlying precepts of *wage labour* and *production for profit*.

**Socialism:** An economic system in which most wealth is owned or controlled collectively (through the state, other public institutions, or non-profit organizations), and the operation of markets is influenced or managed through regulation and planning.

**Speculation:** The purchase of an asset (such as a financial asset or real estate) purely in the hope that its market price will increase, allowing a profit (known as a *capital gain*) to be made on its subsequent resale.

**Stock Market:** A place where *shares* of *joint stock* corporations are bought and sold. Most modern stock markets no longer have a physical presence, but rather consist of connected computer networks.

**Structuralist Economics:** A form of *heterodox* economics which emphasizes the relationships between effective demand, income distribution, and political and economic power.

**Structures:** A form of *fixed capital* consisting of buildings and other large constructed assets (including bridges, pipelines, mines, highways, etc.).

**Supply-Constrained:** An economy is supply-constrained when its total output is limited only by the supply of *factors of production* (including labour, capital, and natural resources). Contrasts with a *demand-constrained* economy.

**Surplus:** Any agent or sector in the economy (household, business, or government) experiences a surplus when its income exceeds its expenditure.

**Surplus, Economic:** For the economy as a whole, the surplus equals the amount of production over and above what is required for the reproduction of the existing economic system (including the necessary consumption required to reproduce the population, and *depreciation* on the existing stock of *capital*). An economy's aggregate surplus can be consumed (to allow for a standard of consumption higher than mere subsistence, or to finance wasteful projects like wars or monument-building), or re-invested to expand future production.

**Surplus, Government:** A government surplus exists when a government's tax revenues exceed its total spending (including both interest charges and *program spending*).

**Sustainability:** A condition in which the economy does not utilize more resources from the natural environment than can be replenished by the normal reproductive capacity of the *environment*, and does not expel more *pollution* into the environment than can be absorbed without ongoing deterioration in environmental quality. Only a sustainable economy can function long into the future without encountering natural or environmental limits.

**Tariff:** A tariff is a tax imposed on the purchase of imports. It is usually imposed in order to stimulate more domestic production of the product in question (instead of meeting domestic demand through imports).

**Taxes:** Compulsory government levies collected to pay for public spending. There are many different types of taxes (income, corporate, sales, wealth, payroll, and environmental taxes); each has a different impact on the economy, and on different groups within the economy.

**Technology:** Technology is the knowledge which humans collectively possess regarding how to produce goods and services in more efficient ways.

**Terms of Trade:** The ratio of the average price of a country's exports, to the average price of its imports, is its terms of trade. In theory, an improvement in a country's terms of trade raises its real income (since it can "convert" a given amount of its own output into a larger amount of consumable products through trade) – although in practice it depends on how those terms of trade gains are distributed.

**Tradeable:** A product (a good or service) is tradeable if its purchaser can buy it far away from the place where it is produced. Most *goods* (other than perishable or extremely perishable products) are tradeable, and some *services* (such as tourism, and specialized financial, business, and educational services) are also tradeable.

**Transfer Payments:** Governments typically redistribute a share of tax revenues back to specified groups of individuals in the form of various social programs (such as welfare benefits, unemployment insurance, public pensions, or child benefits). These transfer payments supplement the *market income* of the households which receive them.

**Underdevelopment:** Poor countries can be prevented from progressing through the stages of economic development by barriers such as specialization in natural resources, an overdependence on foreign investment, and an inability to stimulate higher-value manufacturing and services industries.

**Unemployment:** Individuals who would like to be employed, and are actively seeking work, but cannot find a job, are considered “officially” unemployed. Individuals who are not working, but not actively looking for work, are considered to be outside of the *labour force*, and hence don’t count as “officially” unemployed.

**Unemployment Rate:** The number of *unemployed* people measured as a proportion of the *labour force*.

**Unions:** Organizations of working people which aim to bargain collectively with employers in order to enhance workers’ bargaining power, raise wages, and regulate working conditions.

**Unit Labour Cost:** How much an employer pays for the labour required to produce each unit of a good or service. Unit labour cost can be calculated by dividing a worker’s hourly (or annual) labour cost, by the amount (in physical units or value terms) that they produce during that hour (or year). It is thus the ratio of labour costs to *productivity*. Companies try to reduce their unit labour cost, either by increasing productivity (the denominator) or by reducing labour costs (the numerator).

**User Fees:** A form of tax in which the users of public services are charged a specified fee to cover some or all of the cost of providing that service.

**Value Added:** The value added in a particular stage of production equals the value of total output, less the value of intermediate products (including capital equipment, raw materials, and other supplies). By definition, value added is ascribed to the various *factors of production* (including the wages paid to workers, the profit paid to a company’s owners, and interest paid to lenders). Value added in the total economy equals its *gross domestic product* (GDP).

**Wage Labour:** A form of work in which employees perform labour for others, under their direction, in return for wages or salaries. The employer owns and controls the product of the labour.

**Wealth Tax:** A tax in which owners of particular forms of wealth (such as financial wealth, real estate, or inheritances) must pay a specified proportion of that wealth to the government, usually on an annual basis.

**Working Capital:** A business requires a certain revolving fund of *finance* to pay for regular purchases of raw materials, initial labour, and other inputs to production. Working capital may refer to the actual physical inventory of raw materials and goods-in-production, or it may refer to the financial resources required on a normal basis to pay for those things.

**World Bank:** An international financial organization formed after World War II and based in Washington D.C. Its supposed goal is to promote the economic development of poor regions of the world through subsidized loans, economic advice, and other forms of assistance, but in practice it has played an important role in reinforcing *neoliberal* economic policies in developing countries, including through the aggressive use of *conditionality* strategies.

**World Trade Organization:** An international economic organization formed in 1995 and based in Geneva, Switzerland, which is dedicated to promoting greater trade and investment among its members. Most countries in the world now belong to the WTO, and hence have committed to reducing *tariffs* on imports, reducing *non-tariff barriers* to trade, reducing restrictions on foreign investment, and generally following a pro-market vision of economic development.