

CHAPTER 3: DEFINING ECONOMICS: A PLURALISTIC APPROACH

Defining Economics: A Pluralistic Approach

DEFINING ECONOMICS: A PLURALISTIC APPROACH

CHAPTER OBJECTIVES

In this chapter, you will learn about:

- Multiple Definitions of Economics
- Diversity of Paradigms in Economics
- A Critical Examination of the Orthodox (Neoclassical) Definition of Economics
- The Presentation of an Alternative Definition

3.1 THE IMPORTANCE OF DEFINITIONS

LEARNING OBJECTIVES

By the end of this section, you will be able to:

- Discuss how definitions provide theoretical direction.

The presentation of an alternative definition may appear generic, even unimportant. A definition often washes over a reader, leaving the reader influenced, but without any obvious new insight as to the intended meaning or implications of a word. Worse, without proper guidance, a reader may interpret a definition differently than what is intended by the author, or in the case of economics, different from how the discipline is actually employing the definition. Definitions are, however, important, potentially very important. A definition has the potential to provide clarity. At their best, definitions act like a compass, providing a lost reader with several potential directions from which to proceed.

3.2 MULTIPLE PERSPECTIVES REQUIRE MULTIPLE DEFINITIONS

LEARNING OBJECTIVES

By the end of this section, you will be able to:

- Define the term paradigm.

The importance of clarity and directionality becomes heightened when a discipline has more than one potential definition. The discipline of economics, similar to the other social sciences, does not ascribe to only one definition. The definition of economics that is utilized by an economist will often depend on the paradigmatic perspective of the economist.

Paradigm – A school of thought. It represents the boundary of a discipline, framing the types of questions and phenomena that will be analyzed, and the approach or method of study a theorist will employ.

The discipline of economics has more than one paradigm. Not surprisingly, the discipline of economics also has more than one definition.

3.3 A BRIEF SYNOPSIS OF DIFFERENT ECONOMIC PERSPECTIVES

LEARNING OBJECTIVES

By the end of this section, you will be able to:

- Define the term ideology.
- Describe the relationship between ideology and paradigms
- Identify some of the differences between competing economic paradigms.

Multiple theoretical perspectives tend to create multiple ideas as to what economic questions, phenomena, and methods are most appropriate. With paradigmatic differences come ideological differences.

Ideology – The ideas, beliefs, subjective values, and prevailing world views that a person holds. One’s ideology influences the way in which a person perceives what they believe is correct or incorrect about their social circumstance or the larger world in which they live.

Broadly speaking, the discipline of economics is occupied by theorists who tend to fall within one of three categories.

1. Conservative economists
2. Progressive economists
3. Radical economists

In terms of beliefs, while there is some crossover, the differences between each of the ideological perspectives tends to be overwhelming.

Conservative Economists Believe...

- That markets works well on their own without outside interference.
- Because markets work well, a “Laissez-Faire” (Hands Off) view of markets is embraced.
- Given the belief in well-functioning markets, it is also believed, overwhelmingly, that markets should be responsible for how societies allocate resources
- Limited government involvement in markets is best because extensive government involvement is disruptive to market performance.

Progressive Economists Believe...

- Markets should generally be responsible for the allocation of resources
- Free markets generate inequality
- Free markets are often unstable
- Government intervention is necessary

Radical Economists Believe...

- Market economies are classed based economic systems.
- Class is determined by one's position in the economy: owner, laborer, etc.
- Market economies empower the wealthy, typically owners of assets.
- Market economies exploit labor
- Free market capitalism is unstable
- Capitalism needs to be replaced

COMPETING PARADIGMATIC VIEWS

How might different economists address Different Microeconomic Issues?

1. Consider the issue of Negative *Externalities* – *When a third party suffers a loss from the actions of others. For example, consider the massive social costs associated with carbon emissions and climate change.*
 - **Conservative Economists:** Argue that the solution to market failure associated with externalities is to assign property rights. If the party causing or impacted by the externality has property rights, then markets and accurate prices emerge.
 - **Progressive Economists:** Argue that the government is needed to assist in correcting for externalities. Taxes and/or regulations can be instituted that require producers of externalities to account for the social costs they have generated.
 - **Radical Economists:** Argue that externalities are pervasive in market economies. Assigning property rights encourages producers of externalities to produce more negative externalities in an effort to extort payments from those afflicted. Also it is impossible to tax and/or regulate all externalities. An alternative to the market, as an allocative institution, is needed.

How might different economists address structural issues in economics?

1. Consider the issue of *Preferred Economic Institutional Structure(s)*,
 - **Conservative Economists:** Argue that the free market is the ideal institution for allocating resources to their best (socially optimal) outcomes. Advocate that government should be limited to institutions useful toward the defense of private property and the enforcement of economic contracts.

- **Progressive Economists:** Argue that as a result of market failure such as environmental pollution and significant unemployment, institutions, typically government institutions, are necessary in order to correct market failure and return markets to a more efficient allocation of resources.
- **Radical Economists:** Argue that government institutions are an incomplete and ineffective mechanism for addressing market failure. Advocate for the creation of alternative institutions, such as worker cooperatives, that are designed to challenge and potentially supplant institutions favorable to the current operation of the economic system.

How might different economists address economic development issues?

1. Consider the issue of **Income Inequality**,

- **Conservative Economists:** Argue that income inequality arises from productivity differences that emerge between and among individuals. Efforts to reduce inequality should be avoided as they distort incentives and market allocation.
- **Progressive Economists:** Argue that income inequality results from social circumstances. Children born into higher income (higher wealth) families have more opportunities available to garner both the resources and skills necessary for higher incomes. Hence, these economists favor government programs that promote equality of opportunity.
- **Radical Economists:** Argue that income inequality is a byproduct of a class-based economic system. Also inequality is exacerbated by social circumstances. Generally, they would support government programs that promote equality of opportunity, however, also argue that those programs cannot eliminate inequality in a system built upon inequality.

How might different economists address world economic issues?

1. Consider the issue of **Global Poverty**,

- **Conservative Economists:** Argue that free trade between nations will drive specialization and the expansion of material production, thus gradually reducing global poverty.
- **Progressive Economists:** Argue for a degree of government intervention in international trade. Suggest trade via such policies as infant industry, fair labor standards, and environmental protections. Trade is an economic development tool.
- **Radical Economists:** Argue that international trade worsens class tensions. Low wages in developing countries cause wages to decline in developed countries. Poverty is a part of capitalism, free trade and/or managed trade cannot end global poverty.