



What is Economics?

Open any textbook on economics. The concept of 'scarcity' soon appears, maybe even on the first page. And you'll read that there are scarce resources and unlimited wants, and that economics is the study of the choices that people make to deal with this situation.

The concept of 'scarcity' used in these definitions is an abnormal and a circular one; and human wants are not unlimited. In any event, the relationship between scarce resources and unlimited wants is not really what economics studies. This definition is an ideological construct to justify one particular way of organising the production and distribution of goods and services – the capitalist system of production for profit, involving markets, money, prices, profits, wages, interest, banks, etc.

What is scarcity?

Taking at random a typical economics textbook, *Economics* by Ralph T. Byrns and Gerald W Stone (5th edition, 1992), it opens with a chapter titled 'Economics: The Study of Scarcity and Choice'. Paul Samuelson in his widely-used textbook of the same name writes of 'the law of scarcity'. Actually, it's not a law but a definition. And an odd one at that.

When someone says that something is scarce, what comes to your mind? Probably you think that there's not enough of it, that it's in short supply. That's the normal usage, but for modern academic economics it's something rather different. In his statement of the so-called 'law of scarcity' Samuelson contrasts scarcity to a situation where 'an infinite amount of every good could be produced'. The other textbook starts a paragraph headed 'Scarcity' with 'A world in which all human wants are instantly fulfilled is hard to imagine.' Yes, it is. In fact it's preposterous. But that's what is behind what economics means by 'scarcity' – it's the absence of an infinite amount of every resource and every good, the absence of a state of affairs in which everything would be provided free by nature, in which, as in the mediaeval legend of the Land of Cockayne, geese would fly around ready-cooked saying 'eat me!' And we're supposed to take their definition seriously.

It's the same with what economics means by what is normally regarded as the opposite of scarcity – abundance. The normal definition and usage of this is, to quote a few dictionaries, 'plenty', 'more than enough', and even 'ample sufficiency'. It does not mean everything being what economics calls 'free goods'. 'Free goods' is in fact the last trace in economics of the labour theory of value, which was embraced by Adam Smith and David Ricardo as well as by Marx, since they are goods that are available without having to be the product of human labour. They have no price because no labour has to be expended to produce them.

So, economics is defining 'scarcity' in such a way that it exists by definition and irrespective of human needs; that it's part of the human condition. In fact in a sense it is, though this is a strange

way of putting it. A much more straightforward way would be to say that humans have to produce by their own work most of what they need. But that of course leads back to the dreaded labour theory of value as it would bring out that the only sort of goods that economics is interested in are those that are the products of human labour, past and present.

But this definition of scarcity is still not adequate for the ideological aim of justifying a system where people's consumption is rationed by money. The imagined killer argument here is that productive resources, however abundant (in the normal sense), will

never be enough to satisfy human needs and wants as these are 'unlimited'. So there will always be a need to ration what people can consume.

This view is stated very clearly in the textbook's definition of economics: 'Economics is the study of how individuals and societies allocate limited resources to try to satisfy their unlimited wants'.

This definition is accompanied (page 5) by a Figure 1: 'The Origins of Scarcity' which aims to illustrate this. On the left side there's 'Limited Resources and Time' and on the right side there's a long list of 'Virtually Unlimited Human Wants'. This is introduced by 'Scarcity occurs because our limited resources and time can only yield limited production and income, but people's needs are virtually unlimited.' Note how this already begs the question of the necessity of a system with monetary incomes.

What are human needs?

Philosophers, psychologists, sociologists, anthropologists, nutritionists and others have argued over the definition of both 'needs' and 'wants' but clearly/there is a 'hierarchy of needs' based on, first of all, physiological/biological needs, primarily food. But 'man does not live by bread alone' as humans are social animals and have other needs beyond this level, basically to be members of a community and to have social recognition and esteem within it. This is not purely social and non-material but has a material aspect to it as what a person consumes affects how they are socially regarded, how they regard themselves, and what their aspirations are. In other words, 'wants' are socially-determined, not just a matter of individual whim. They are shaped by society, not by biology in the way that basic human needs are (though even how these too are met is socially-determined).

So we've got:

1. Basic, physiological needs.
2. Non-material, social/psychological needs
3. Material needs and wants arising out of these.

So let's apply this to the list in the textbook. These on the list can be regarded as *basic needs*: food, clothing, shelter.

The list contains some other goods to meet people's material needs over and above the minimum to stay alive, e.g. transportation, comfort, good health but also useful things such as microwaves, telephones, washing machines, computers, music equipment, etc. But there is no problem in producing enough of these for everyone. In fact most people have already got them (or their modern equivalents) now.

And then there's *non-material, social needs*: recognition, sense of personal worth, peace of mind, success in life.

And, finally – and this is where it becomes revealing – the *material goods to satisfy these non-material needs*: jewellery, three-car garage, golf lessons, plastic surgery, swimming pool, fancy

automobiles, ski boats, yachts, designer wardrobes, country estate.

Non-material needs (such as the listed recognition, sense of personal worth, and success in life) can be met in a number of ways depending on what kind of society people have been brought up in and live in. The textbook's list of ways to meet them today (jewellery, etc) clearly reflects a society divided into rich and non-rich where to be rich is a measure of success in life and a way of gaining recognition.

The dogma of unlimited human wants which economics preaches assumes such a society and that wants are infinite because the non-rich aspire to be rich and the rich want to be richer. This latter is itself a reflection of the fact that capitalism is a system of continual capital accumulation.

The 'wants' that capitalist society generates may well be 'virtually unlimited' but capitalism is not the only way of producing and distributing wealth, nor of satisfying people's need for recognition, sense of personal worth, and success in life. These needs could be met in other ways in a different society and have been in the past.

What Economics really studies

So, if resources are not in short supply and if human needs are not unlimited, where does this leave economics or rather its definition of itself? It would have to be redefined along the lines of: 'The study of how individuals and societies allocate available resources to satisfy their needs and wants'.

But would that still be economics? It sounds more like a branch of sociology or even the Marxist Materialist Conception of History.

In any event, it is not what economics does study. So what is it that it studies? Samuelson listed various definitions of economics which he rejected before offering his own. One of these he rejected does describe what in practice economics studies:

'Economics is the study of those activities that involve money and exchange transactions among people'.

This is a good description of what you do find studied in economics textbooks beyond the opening chapter. It is also what political economy (as economics was then called) studied in the eighteenth and nineteenth centuries.

In effect economics is the study of the capitalist economic system as the most developed form of exchange economy, one in which nearly everything is produced for sale on a market; where people have to acquire money to access what they need to live; and where even human mental and physical energies are bought and sold.

Where all these are the case, economic laws come into operation which act as if they were natural laws and which economic actors (whether governments, employers or workers) have to follow and submit to. The 'political economists', Adam Smith, David Ricardo and the others, believed that these economic laws really were natural laws and so saw the capitalist exchange economy as the natural way of organising the production and distribution of wealth. But capitalism is only of comparatively recent origin in human history and is not the only way to organise production and distribution.

Economics is, whether the writers of economics textbooks realise it or not, the study of the economic laws that come into operation when goods and services are produced by wage workers for sale on a market with a view to profit. Laws which can be summarised as 'No Profit, No Production', 'Can't Pay, Can't Have' and 'You Can't Buck the Market'.

Of course as long as there is an exchange economy, with money, markets and the rest, there will be a need to study how it works, not to advise governments or corporations but to show that it can only work in the way it works and so not in

the common interest. It's true that you can't buck the market. You can't give priority to meeting needs.

If economics really was the study of how individuals and societies use resources to satisfy their needs and wants, its textbooks would study non-monetary and non-market ways of doing this as well as the capitalist way. There would be chapters examining what resources are available, what human needs and human wants are and what determines them. But economics leaves these to other sciences – and then takes no notice of their findings.

Take food resources. There are plenty of studies which show that the planet could produce enough food to meet the food needs of every man, woman and child alive today and many more. So, why are there so many malnourished and starving people in the world? You might expect economics to invoke its founding myth of scarcity and infinite wants to explain this and say it's the result of there being too many people. But they can't because year after year the FAO reports that enough food is already being produced to meet at least the basic food needs of everyone on the planet. So, whatever the reason why people are malnourished it's not because there's not enough food. It is not because food is scarce.

It is here that the more accurate description of economics – as 'the study of the activities that involve money and exchange transactions among people' – can help. Food, like nearly everything else, is produced today to be sold to provide a monetary income for the seller. It is not produced to feed people. This means that it only goes to those who can pay for it. If you have no money you don't count and can starve. And if you have money, the more money you have the more and better food you can get. That's what determines how food is distributed today.

That's why, although even now enough food is produced to meet the basic, biological needs of everybody, it is not distributed to do so. It is not even produced with that in view. But it is not a question of just sharing out more evenly what is produced today since, if it wasn't for the market system even more could be produced, enough to adequately satisfy everybody's food needs well above the basic level.

Much more constructive than studying how the capitalist exchange economy works would be to study how best to use available resources to satisfy human needs and wants. And not just to study this but to see this implemented. Implementing this assumes the disappearance of capitalism and its replacement by a system where resources would no longer be owned and controlled by corporations, governments or rich individuals and used to produce goods for sale on a market with a view to profit, but would instead have become the common heritage of all. Only on this basis will the economic laws of capitalism no longer operate and society be free to produce and distribute wealth directly to satisfy human needs.

And of course, with the disappearance of capitalism and its economic laws, there'd be no need for a science to study them and what we now call economics would disappear too. But ex-economists would surely find more satisfaction in studying how humans can allocate resources to meet their needs in conditions of relative abundance.

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