

# Economics for Everyone



# Economics for Everyone

## A Short Guide to the Economics of Capitalism

Second edition

Jim Stanford

Illustrations by Tony Biddle



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# Introduction

## Why Study Economics?

### Never trust an economist with your job

Most people think economics is a technical, confusing, and even mysterious subject. It's a field best left to the experts: namely, the economists.

But in reality, economics should be quite straightforward. Ultimately economics is simply about how we work. What we produce. And how we distribute and ultimately use what we've produced. Economics is about who does what, who gets what, and what they do with it.

At that simplest, grass-roots level, we all know something about the economy. And so we should all have something to say about economics.

Moreover, because we interact, cooperate, and clash with each other in the economy (even Robinson Crusoe didn't work alone – he had Friday around to help), economics is inherently a *social* subject. It's not just technical forces like technology and productivity that matter. It's also the interactions and relationships between *people* that make the economy go around.

So you don't need to be an economist to know a lot about economics. Everyone experiences the economy. Everyone contributes to it, one way or another. Everyone has an interest in the economy: in *how* it functions, how *well* it functions, and in *whose interests* it functions. And everyone has a grass-roots sense of where they personally fit into the big economic picture, and how well they are doing (compared to others, compared to the past, and compared to their expectations). This is the stuff economics should be made of.

Unfortunately, most professional economists don't think about economics in this common-sense, grass-roots context. To the contrary, they tend to adopt a rather superior attitude in their dealings with the untrained masses. They invoke complicated technical mumbo-jumbo – usually utterly unnecessary to their arguments – to make their case. They claim to know what's good for the people, even better than the people themselves do. They take great pleasure in expounding theories that are counter-intuitive and puzzling to the rest of us. They present themselves as interpreters of a mysterious realm which average people cannot hope to comprehend. And since they study things that are measured in billions or even trillions of dollars, their sense of importance grows – in their own eyes, and in others'.

That's why we see economists on the television news every night. We almost never see educators, social workers, nutritionists, or architects on the nightly news. Perhaps we should hear more from those other professions, and less from the economists. Their advice might actually be more important to our long-term economic well-being than that of the economists.

Nothing better exemplifies economists' know-it-all attitude than debates over free trade. Conventionally trained economists take it as a *proven fact* that free trade between two countries always makes both sides better off. People who question or oppose free trade – trade unionists, social activists, nationalists – must either be acting from ignorance, or else are pursuing some narrow vested interest that conflicts with the broader good. These troublesome people should be lectured to (and economists love nothing better than expounding their beautiful theory of **COMPARATIVE ADVANTAGE\***), or simply ignored. And that's exactly what most governments do. (Ironically, even some conventional economists now recognize that traditional free trade theory is wrong, for many reasons – some of which we'll discuss in Chapter 22 of this book. But that hasn't affected the profession's near-religious devotion to free trade policies.)

Most economists are wedded to a particular, peculiar version of economics – called **NEOCLASSICAL ECONOMICS**. This kind of economics is as ideological as it is scientific. It was developed in the late nineteenth century to *defend* capitalism, not just explain it. And it still goes to great lengths to try to “prove” a whole portfolio of bizarre, politically loaded, and obviously untrue propositions: like claiming that merely owning financial wealth is itself productive, or that everyone is paid according to their productivity, or that unemployment doesn't even actually exist.

And the arrogance of economists is not neutral. Outside the academic world, the vast majority of professional economists work for organizations with a deep vested interest in the status quo: banks, brokerages, corporations, industry associations, and governments. Inside academia, too, the ideological influence of business and wealth is increasingly apparent over curriculum and research in economics – enforced partly through corporate and major donor funding of economics and business schools. Whether in universities or in the real world, therefore, most economists accept that competition, inequality, and the accumulation of private wealth are inevitable, natural, and even desirable features of a vibrant, efficient economy. This value system infuses their analysis and their recommendations.

I think we need a more democratic economics, a more grass-roots approach. I think we need an economics that's not based on abstract assumptions (like the other-worldly theory of **PERFECT COMPETITION**, which we'll explain in

\* Terms appearing in **BOLD SMALL CAPITALS** are defined in the on-line glossary provided at [www.economicsforeveryone.com](http://www.economicsforeveryone.com).

Chapter 11), but instead starts from the concrete circumstances of average people's lives. We need an economics for everyone.

My approach is not motivated by an “anti-expert” mentality. I would not want to be operated on by an untrained medical student. And people who make important economic decisions, and give important economic advice, should be formally trained in economics.

But debates over economic issues are not technical debates, where expertise alone settles the day. They are always *political* debates, in the broad sense of that word: distinct groups of people have distinct interests, they know their interests, and they naturally work to promote them. This occurs everywhere in the economy – and economics shouldn't pretend that it doesn't.

A hard-working labourer has very different economic interests from a red-suspended currency trader. And the labourer has as much to say about economics as the trader. (In fact, in hard economic terms, the labourer produces far more real value than the currency trader – despite the enormous sums of money passing through the trader's computer every business day.) But the elitism of economics disempowers and silences the voices of non-experts, and devalues the economic contributions of working people.

My main goal with this book, and throughout my career as an economist, has been to encourage non-experts – workers, union members, activists, consumers, neighbours – to develop their natural, grass-roots interest in economics, by:

- Studying the economy, and learning more about how it functions.
- Thinking concretely about their personal role and stake in the economy (rather than abstract indicators like gross domestic product, stock markets, or foreign exchange).
- Recognizing that the economy embodies distinct groups of people with distinct and often conflicting interests, and that economics itself reflects those distinctions and conflicts. Economics is not a neutral, technical discipline.
- Being ready to challenge, when necessary, the way “expert” economists explain the economy and (even more dangerously) tell us how to change it.

The economy is too important to be left to the economists. Ordinary people have valuable economic knowledge – knowledge that's usually ignored by the experts. More importantly, the analysis and advice of the experts is all too often compromised by their position in the economy they are telling us how to manage. Everyone has a stake in the economy. Everyone has economic interests they need to identify and protect. Learning about economics will help them understand where they fit into the bigger system, and help them fight for a better deal.

An economist may tell you that your job depends on the central bank raising interest rates to control inflation (in the long run, anyway). An economist may

### Whose Economics?



I once attended a dinner speech given by the then-Secretary-General of the Organization for Economic Cooperation and Development (OECD), which is an international association of developed capitalist countries. He was promoting the concept of “economic literacy.” He argued that if more people in society understood the fundamentals of economic theory (like supply and demand, competition, and free trade), then they would more readily accept policy “reforms” implemented by their governments – even if those reforms were painful.

As an example, he referred to the dramatic (and successful) protests that occurred in France in the mid-2000s against government efforts to weaken labour protections. These changes would have made it easier for employers to fire workers, especially young workers. If the French understood that

these seemingly painful “reforms” actually make the labour market function more “efficiently,” he argued, they wouldn’t have protested.

This kind of “literacy” sounds to me more like brainwashing than education.

During the question period, I took issue with the OECD chief’s assertion that the French do not understand economics. Compare France to the US – usually held up as the prototype of an efficient, flexible, market-driven system. On average, a French worker works 300 hours per year fewer than an American (that’s seven extra weeks off per year). Yet they produce nearly as much value added with each hour of labour as Americans. Unemployment is higher in France – yet most unemployed French receive more income (from social benefits) than millions of *employed* low-wage Americans. As a result, the French have enough money, and lots of time, to eat in restaurants, make love, and attend protest demonstrations (and not necessarily in that order!)

In America, meanwhile, there were almost 11 million *employed workers* in 2013, aged 18 to 64, whose incomes left them below the official poverty line (a standard which is still based on the standard of living in 1964) – and that does not include their children and other dependents.\* Their hard work is not taking them far. Economic mobility between income groups in the US is much less common than in other countries (where income is distributed more evenly), yet the ideology that anyone can get ahead in life as long as they work hard still exercises incredible sway. For example, one survey found that 39 percent of Americans believed either that they already ranked within the wealthiest 1 percent of society, or else soon would make it there.† The mathematical impossibility of this bizarre worldview has not (yet) undermined the American mythology of “upward mobility” – a myth which inhibits hard-working, poor people from standing up and demanding a better deal here and now, rather than waiting for the day they finally make it rich (or else win the lottery).

Ironically, the OECD itself subsequently published abundant economic evidence indicating that employment protection laws (like those French regulations) actually have no visible impact whatsoever on unemployment rates.‡

So who really understands economics? I think it’s the protestors in France.

\* United States Census Bureau, “Current Population Survey, Annual Social and Economic Supplement” (2014).

† Survey conducted by Time/CNN, cited in Andrew Glyn, *Capitalism Unleashed: Finance, Globalization and Welfare* (Oxford: Oxford University Press, 2006, p. 179).

‡ Organization for Economic Cooperation and Development, “Reassessing the Role of Policies and Institutions for Labour Market Performance,” *OECD Employment Outlook*, Chapter 7 (2006).

tell you that free trade will increase productivity and hence increase incomes (although you may lose your job in the process). An economist may tell you that eliminating unions and minimum wages will make society richer (although, just as with aerobic exercise, it might hurt at first ... no pain, no gain!).

### Watch Out!

“The purpose of studying economics is not to acquire a set of ready-made answers to economic questions, but to learn how to avoid being deceived by economists.”

Joan Robinson, British economist (1960).

Never trust an economist with your job. Learn about economics yourself. And make up your own mind about what might protect your job – and what might destroy it.

A society in which ordinary people know more about economics, and recognize the often conflicting interests at stake in the economy, is a society in which more people will feel confident deciding for themselves what’s best – instead of trusting the experts. It will be a more democratic society.

### Capitalism: the economy we know

So far, we’ve been speaking very broadly about “the economy.” But in fact, this book is about the workings of a particular kind of economy, called capitalism. “Capitalism” and “the economy” are not the same thing – even though many economists pretend capitalism is a natural, permanent state of affairs, and hence the *only* economy. However, there were other economies that existed before capitalism. And I tend to think there will be other economies that come after capitalism, too.

Capitalism has particular features and forces that need to be identified, just to understand how it works. This is true regardless of how you feel about capitalism. Just to understand what’s happening in capitalism, we need to identify and study its crucial facts:

- Most people have to work for others, in return for a wage or salary.
- A small proportion of society owns the bulk of wealth, and use that wealth in an effort to generate still more wealth.
- Competition between companies, each trying to maximize its own profits, forces them to behave in particular, sometimes perverse ways.

It seems bizarre, but conventional economists mostly ignore these central facts (with the partial exception of the third). They don’t even use the word “capitalism.” Instead, they call our system a “market economy.” The fact that a few people own immense wealth, while most people own almost nothing, is considered accidental or even irrelevant. They claim, incredibly, that the economy would be exactly the same whether capitalists hired workers, or workers hired capitalists.

### Let's be Honest

“Capitalism [is] a word that has gone largely out of fashion. The approved reference now is to the market system. This shift minimizes – indeed, deletes – the role of wealth in the economic and social system. And it sheds the adverse connotation going back to Marx. Instead of the owners of capital or their attendants in control, we have the admirably impersonal role of market forces. It would be hard to think of a change in terminology more in the interest of those to whom money accords power. They have now a functional anonymity.”

John Kenneth Galbraith, Canadian-American economist (1999).

These central and unique features of capitalism impart particular kinds of behaviour and motion to the economy. They explain why capitalism is *dynamic*: flexible, creative, and always changing. They explain why capitalism is *conflictual*: marked by ongoing struggle and conflict between different groups of people. They explain why capitalism is *unstable*: exhibiting periods of growth and prosperity, followed by periods of stagnation, recession, and even breakdown.

Economists who ignore the key features of capitalism will be less able to understand and explain how capitalism actually works. So purely from a scientific perspective, it's important to be frank about what we are dealing with.

Of course, economists of all political stripes carry political baggage. I certainly do. It's impossible to name and analyze capitalism without passing judgement on it. (Conventional economists pretend that the “positive” science of describing the economy can be separated from the “normative” practice of evaluating and trying to improve the economy – but this phony distinction has never been very convincing.)

Capitalism has been immensely successful, on many criteria. It ushered in the industrial era, and the prosperity (for some people, but not everyone) that came with it. It ruthlessly undermines old-fashioned restrictions and taboos, and probes endlessly to find new ways of generating private profit (some of which are socially useful, some of which are not). It harnesses immense energy, creativity, and discipline from many of its participants.

On the other hand, capitalism has patently failed to live up to many of its promises. Billions of the world's people endure hardship, poverty, and premature death, even though humanity possesses abundant wealth to abolish these afflictions. Vast resources – like the talent and energy of hundreds of millions of unemployed and underemployed individuals – are chronically misused or wasted. The natural environment is being deeply, perhaps critically damaged by the profit-maximizing, cost-shifting imperatives of private profit; global climate change is

just the most catastrophic symptom of this failure. And even on its own terms – the rapid investment of private capital to generate profit – capitalism may be running out of steam (something we will discuss in Chapter 12).

I am critical of capitalism’s failings – but I am also respectful of its flexibility and its staying power. I am utterly convinced that there are many obvious changes that would help the economy meet human and environmental needs, without breaking fundamentally from the underlying logic which drives the whole system. I also believe that it is ultimately possible to build an alternative economic system guided directly by our desire to improve the human condition, rather than by a hunger for private profit. (Exactly what that alternative system would look like, however, is not at all clear today.) We’ll consider these criticisms of capitalism, and alternative visions, in the last chapters of this book.

But quite apart from whether you think capitalism is good or bad, capitalism is something we must study. It’s the economy we live in, the economy we know. And the more ordinary people understand about capitalism, the better is the economic “deal” they’ll be able to extract from it.

## The organization of this book

This book has five major parts, which cover the following subject areas:

1. **Preliminaries** The first part of the book defines the economy, and identifies the unique features of a capitalist economy. It also provides some historical background. We discuss how capitalism emerged and evolved, and also how the study of *economics* emerged and evolved. In both cases, we highlight the conflicts and controversies encountered en route to the present day. I believe that studying economic history and the history of economic thought is an inherently subversive undertaking. It refutes the assumption that capitalism is “natural” and hence ever-lasting, and the related claim that economics is the neutral, technical study of that natural, ever-lasting system.
2. **The Basics of Capitalism** This part of the book studies the core activities and relationships that make up capitalism. First we discuss *work*. Broadly defined, work (or human effort) is the essential ingredient that drives everything in the economy. But we don’t work with our bare hands; we must work with tools. We have to make those tools, and (in capitalism, anyway) someone owns them. Most work in capitalism is undertaken by employees who are paid wages or salaries for their efforts. But much work also occurs without any payment, inside households, as people care for themselves and their family members. We describe this basic economic “circle,” in which profit-seeking investment



initiates production, generates employment, and allows people (supplemented by unpaid work at home) to support themselves.

3. **Capitalism as a System** After introducing these basic, core relationships, Part Three describes how the capitalist economy functions as an overall system. It describes competition between firms; the determination of overall investment; the determination of overall employment; the distribution of income; the pervasive inequality that is pervasive in capitalism; and the fundamental relationship between the economy and the natural environment.
4. **The Complexity of Capitalism** Apart from the basic relationships between private companies, their workers, and households, there are other important players in modern capitalism. We introduce these players and what they do in Part Four. We start with the monetary and financial system. The financial industry itself is not inherently productive, but it plays a crucial role in facilitating investment and distributing profits. We also introduce government and its diverse, often contradictory economic functions. And we start to describe capitalism on a global level: globalization, foreign trade, capital flows, and economic development. The smaller, simple “circle” we described in Part Two of the book now becomes a lot bigger and more complex. We also consider the boom-and-bust instability that seems endemic to capitalism – including a detailed review of the causes and consequences of the 2008 **GLOBAL FINANCIAL CRISIS**.
5. **Challenging Capitalism** Once we’ve described capitalism as a complete, global economic system, the final part of the book evaluates capitalism: both its successes, and its failures. It considers ways in which capitalism could be reformed, to more effectively meet human needs and protect the natural environment. And it starts to imagine completely different ways of organizing the economy in the future.

## Building an economic “map”

The book describes an economy of gradually increasing complexity – starting with the simplest relationships between employers and workers, shifting our focus to the interaction between companies, and then considering the roles of the environment, the financial industry, government, and globalization.

To portray these increasingly complex relationships, we provide a series of economic “road maps,” illustrated by Tony Biddle. The maps use simple visual icons to identify the major players, and connect the dots between them. By the time we’ve explained our “big circle” at the conclusion of Part Four, this map will be a very handy tool for finding your way around capitalism. Like any map, it will help you figure out where you are, where you want to go – and how to get there.

## The Economics for Everyone website

The overarching goal of this book is to make economics accessible and even entertaining for non-specialist readers. That's why we've kept the book short, used plain language, illustrated it with Tony Biddle's awesome cartoons, and avoided (wherever possible) the use of academic-style citations and references.

For those who want to continue their study of grass-roots economics, however, we have provided additional information and resources. These are posted, free of charge, at a special Economics for Everyone website, generously hosted by the Canadian Centre for Policy Alternatives (Canada's major progressive think tank, and the co-publisher of this book):

[www.economicsforeveryone.com](http://www.economicsforeveryone.com)

The following materials are available at the website (direct links and supplementary content are also provided in the e-book version of this book):

- **Instructor resources** Dozens of unions, community groups, schools and colleges, and other organizations have been using Economics for Everyone as a teaching resource for grass-roots economics instruction. To this end, the website includes a sample course outline (based on material in this book), lecture slides, and a set of hands-on, entertaining student exercises – all free. The book and the web-based materials thus constitute a ready-made teaching resource. With them, any progressive organization can undertake to offer basic instruction in economics to its members, without any formal prerequisites. (We also encourage instructors to supplement these materials with local information, resources, and guest speakers.)
- **Glossary** Every term in this book highlighted in **BOLD SMALL CAPITALS** is defined in an on-line glossary that can be accessed from the website (or through direct links in the e-book).
- **“How-to” guides** The website includes short guides to help readers locate and interpret key economic data and statistics, such as GDP statistics, labour market data, and corporate financial reports
- **“You Write the Book”** In several places I invite readers to provide their own ideas, illustrations, or examples of phenomena described in the text. For example, in Chapter 7 I explain why just because an activity is profitable for a private company, does not ensure it is useful from the standpoint of society or human well-being. At that point I invite readers to help “write the book”: send your examples of profitable activities that are useless, annoying, or downright destructive – and I will publish the best of them

(with acknowledgment) on the Economics for Everyone website. Submit your ideas to [author@economicsforeveryone.com](mailto:author@economicsforeveryone.com).

- **“Jimbo Talks”** You’ve heard of “Ted Talks”: short on-line lectures dealing with fascinating subjects. The Economics for Everyone website has links to several “Jimbo Talks” (Jimbo has been my nickname ever since I was a kid!). These short videos aim to illustrate key themes in the book through often humorous examples or applications. They can also be used in teaching and popular education.
- **Other supplementary materials** The website also provides a list of suggestions for further reading (including links to organizations which undertake progressive economic research and education), and a complete list of sources for the data and citations included in the book.
- **Social media** Follow me on Twitter (@jimbostanford) or Facebook (jimbo.stanford) for updates on current economic events and controversies, commentary, reports on public events related to the book, and reactions to the book.

## It’s up to you

Your impressions, responses, questions, and suggestions are invited and appreciated. They will help to refine and improve this work for future editions and applications. Send your feedback to [author@economicsforeveryone.com](mailto:author@economicsforeveryone.com). I will endeavour to respond to every query.

If there’s a simple, overarching theme running through this book, it’s the idea that people have to fight for whatever they get from the economy. Nothing comes automatically, via the magical workings of supply and demand. Rather, it comes to them through education and awareness, organizational strength, action, and power. Knowing this basic fact of economic life, and identifying where and how

### A Note on Sources and Citations

To keep this book as readable and uncluttered as possible, we have dispensed with most of the formal references, source notes, and citations common in academic books. Most of the statistical information contained in the book (including graphs and tables) was obtained from standard public sources (national statistical agencies, or international organizations like the United Nations and the Organization for Economic Cooperation and Development). Where I have referred to data collected or analyzed originally by other researchers (rather than data from standard public sources), or where I have repeated quotations from a secondary source (when another researcher located and reported the original quotation), more complete references are provided in a footnote.

to fight for a fairer share of the pie, will allow you and your fellow workmates, activists, and neighbours to make the most of economics.

In this sense, it really is up to you: to take your grass-roots knowledge of the economy, and translate it into economic action, and economic change.