

What's the use of Economics?

**AES** Agricultural Economics Society

**WHAT'S THE USE OF ECONOMICS?**

**PRESIDENTIAL ADDRESS**

**APRIL 2004**

**DAVID R. HARVEY**

**[DRAFT - November, 03]**

**SCHOOL OF AGRICULTURE, FOOD AND RURAL DEVELOPMENT**



**ABSTRACT**

This paper considers the present state of applied economics and the difficulties of integrating its findings and insights with those of other social science disciplines. It offers some slightly novel and deliberately philosophical perspectives on these difficulties in the hope that new ideas might spark closer integration in the future. Without being able to tell a better story about how the world works, applied economics, and all applied social sciences, run the substantial risk of being considered part of the world's problems, rather than possible routes towards their solution. This address seeks to outline some possible strands of a more coherent story, and hence indicates some potentially fruitful avenues for developing both research agendas and learning curricula.

**Keywords:** Economics, applied social science, methodology, culture, metaphysics, applications

<b>Sections:</b>	<b>Page</b>
<b>Presidential Preamble</b>	<b>3</b>
<b>The Problem with Economics</b>	<b>4</b>
<b>What does Economics do and how does it fit?</b>	<b>8</b>
<i>But One: Who Chooses?</i>	9
<i>But Two: Collective Interaction &amp; Public Choice</i>	10
<b>How should we do Social Science?</b>	<b>13</b>
<b>Some Elementary Philosophical Foundations</b>	<b>15</b>
<b>A Speculation on the Nature of Social Authority</b>	<b>19</b>
<b>Social Transactions and Negotiations of Social Authority</b>	<b>22</b>
<b>So What? Reconsidering Government and Governance</b>	<b>26</b>
<b>The trade-off between Private and Public Interest</b>	<b>26</b>
<b>The common model in practice</b>	<b>29</b>
<b>So, what are the implications?</b>	<b>31</b>
<b>Three Examples</b>	<b>34</b>
<i>The Food Chain</i>	34
<i>The Rural Environment and Land Use</i>	37
<i>International Agricultural Trade Negotiations and Relations</i>	40
<b>So, in conclusion, what's the use of Economics?</b>	<b>41</b>

## Presidential Preamble

It is, of course, a great honour to be asked to address you as President of The Agricultural Economics Society – the first of such societies to be formed, and thus finding no need of any qualifying geographical adjective. It is also a considerable honour to be asked to do so at the first annual conference of the Society to be held in central London.<sup>1</sup> It is, though, somewhat dispiriting to be in such a position at a time when the future of the society and the profession it represents appears to be in question.

Like all presidential addresses, this is born from a mating of retrospection and speculation, adulterated with the idiosyncrasy bred of my own nature and nurture.<sup>2</sup> It is the nature of these occasions that the incumbent, having got used to the idea of his (almost always his) elevation to the professional peerage, imagines that he must have something wise to say, and furthermore, that there is a whole profession anxious to hear it. Neither presumption is true. All that is signified is the Peter Principle. But I am now blessed with the massive advantage of the position: I have nothing to prove with this address; I can say what I like, and get away with it.<sup>3</sup>

---

<sup>1</sup> Our Society traditionally held a winter conference in London (Giles, 2001), and continues this tradition with our one-day conferences (now courtesy of Defra). However, this is the first occasion on which the main annual conference has been held in the capital city (and so close to the major national museums of science and nature)

<sup>2</sup> This nature and nurture can be briefly outlined as follows (with no proper respect to the many unnamed influences). Born immediately after WW2 to a tenant farmer on a smallish (400 acre) Wiltshire downland farm; schooled at a minor public boarding school (courtesy of family inherited wealth rather than justified by the farm); further educated ('66-69), in agriculture with economics, at Newcastle under Mac Cooper, John Ashton and John Rogers, and then in economics at Manchester ('70-'73), under Wat Thomas, David Colman and John MacInerney, financed by the MMB (under Rowland Williams), examined (successfully) for a doctorate by the late and lamented George Peters; apprenticed as a policy analyst with Agriculture Canada in Ottawa, under Doug Hedley among others (74 – 79); apprenticed as a teacher under John Ashton, again, at Newcastle (79 – 84), with, especially, Allan Buckwell, Ken Thomson, John Lingard, and Lionel Hubbard; raised to a chair at Reading (with John Marsh), 84–86, to replace Ronald Tuck (as if that were possible); returned to Newcastle to succeed John Ashton after his untimely death, in 1986, to work alongside Martin Whitby, Chris Ritson, and Philip Lowe, among many others. Apologies both those named and those not – all have made important contributions to my present state, but bear no blame for it.

<sup>3</sup> Of course I have something to prove – why I deserve this honour of being President? There will be a few (I hope) who know me well enough to think it sensible to have so erected me, and will only blame me for not doing myself justice in this address. There will be others who also know me well enough to be convinced that I should never have been so erected, and will treat my address as proof positive of the case, whatever is said. There will be, at last, others who know little or nothing about me, or are prepared to suspend judgement, and can only wonder at the notion that it is sensible to give some aged has-been a platform at all, still less one with few constraints and little peer review. Fortunately, this ritual is not about proof – it is about undeserved or accidental opportunity – the very thing that makes the world go round. The highest ambition that can be entertained for presidential addresses is that they might provoke mild surprise or generate some modest thought. The worst outcome is confirmation of suspicions that it is an outdated ritual. I will be content if I meet your expectations, delirious if I exceed them, and mildly disappointed if I fail to live up (or down) to them, though that is what I should expect.

## What's the use of Economics?

So, what should I talk about? I only have two real alternatives, echoing the reflection/speculation dialectic: either I discuss some lessons learned (or mis-learned) during my career to date, and tell you what I think I know about policy analysis; or I talk about some current problems and issues, and speculate about their possible solutions. But there really is no choice. I still spend most of my working time thinking and writing about policy analysis, so that subject is already as well covered as I can manage elsewhere, and hardly warrants the platform our Society's executive has seen fit to grant me. So, this address is about what troubles me, and briefly about what I am trying to do about it, and hence what I think at least some of you should also be doing about it, with the hope that the consequence proves mildly stimulating, prompts some constructive and productive thought, and perhaps even some action. The result is a paper whose length necessarily trespasses over the boundaries of the acceptable.

### **The Problem with Economics**

On the basis of my own informal focus group work, and active participation (as opposed to simply observation), most of the world can be placed on a spectrum with the following two extremes:

- *Economics Rules OK.* Economics is fundamental and fundamentally right. Get the economics right and everything else will follow. We already know plenty of economics to be able to solve most of the pressing policy and market problems. It is only a matter of getting the details right, the fundamentals are already pretty well established. "In the general equilibrium system, the content of the historical discipline of theoretical economics is practically exhausted" (Samuelson, 1947, p.8)). There is little serious evidence that this condition has altered in the last 57 years (my lifetime so far). The principle problems of commerce and social policy are caused by misconceptions of basic economics, or by basic ignorance, or mistakes over property rights or about transactions costs and principle/agent problems.
- *Economics is the root of evil.* At best, it is a necessary evil and, at worst, a malignant distraction. Get everything else right, and then make the necessary economics fit. Economics has too little to offer, or else is too limited in scope, and too mechanistic, too positivist, too selfish, too modern and too formally plagued by clinical calculus to be worth further study or thought, certainly to be considered the master rather than the servant. It omits or ignores consideration of too much that is obviously important – it

## What's the use of Economics?

does not care enough, it is amoral and impolitic, it is essentially inhuman. It pretends to be objective and classically scientific, when there is no sound philosophical basis for such a belief. Even Keynes thought so (Box 1).

### **Box 1: John Maynard Keynes on the use of Economics**

*“When the accumulation of wealth is no longer of high social importance, there will be great changes in the code of morals. We shall be able to rid ourselves of many of the pseudo-moral principles which have hag-ridden us for two hundred years, by which we have exalted some of the most distasteful of human qualities into the position of highest virtues. We shall be able to afford to dare to assess the money motive at its true value. The love of money as a possession - as distinguished from the love of money as a means to the enjoyments and realities of life - will be recognised for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which we hand over with a shudder to the specialists in mental disease. All kinds of social customs and economic practices, affecting the distribution of wealth and economic rewards and penalties which we now maintain at all costs however distasteful and unjust they may be in themselves, because they are tremendously useful in promoting accumulation of capital, we shall be free, at last to discard.” (p 369 – 70)<sup>4</sup>*

Following Keynes – the richer and more secure we become, the less will economics matter and the lower will be its intellectual and phenomenal appeal. The evidence supports the proposition. Our preaching and application of economics is not earning its keep – we do not command enough attention from either our students or our peers to generate sufficient income to sustain our output – our applicants and class numbers for applied economics are dwindling; our research capacity is crumbling. Defra and other traditional agencies have ceased to fund postgraduate studentships, and the vacuum has yet to be made good by emerging agencies, such as the Food Standards Agency or the regional development agencies.

More generally, home student entry to PhD programmes in economics has fallen to dangerously low levels, according to Royal Economic Society research published in 2000. Neither the LSE nor Nuffield College Oxford attracted a single UK doctoral student in that year. At Warwick, the proportion of first-class honours students staying on for further study dropped from 80% in 1983-5 to 33% by 1995-7. The number of entries for economics A level fell from 32,000 in 1993/4 to fewer than 20,000 in 2000/1. American Economic Association research suggests that declining undergraduate enrolment (which peaked in the US in 1990) is not simply due to discontent with the economic rewards, but also with

---

<sup>4</sup> Quoted in Heap et al., 1992, p 329.

## What's the use of Economics?

disillusionment with the way in which the subject is structured and taught (and researched).<sup>5</sup>

More specifically, I find that I cannot practice (or even preach) as a policy analyst simply on the basis of economics (at least as paraded in most of the textbooks and mainstream journals) – the tool kits and manuals cannot cope adequately with the real world. I am continually torn between rigour and relevance (e.g. Harvey, 2001b). On the other hand, our management and marketing colleagues are clearly ringing bells with their students – they will come to hear about these disciplines or functions, and will pay for the privilege. Our social science peers, practiced in the arts of focus groups and participant observation, can both attract funds and get published, and become favoured advisors to policy makers. Mainstream economics is increasingly dismissed as being too economical, too quantitative or too rigorous to be relevant or reasonable. To get funding or 5\* publications means being even more of this, with erudite and sophisticated game theory, or abstruse dynamics, or elegant choice theoretics, or generalised non-linear equilibria, or transactions complexities. Otherwise, we are condemned to playing bit-parts, providing pedestrian arithmetic as grist to the policy mills and fodder to little-read lower-ranked journals. Our professional societies dwindle and stagnate, much as our student intakes and research grants ossify and decay. I either get very cross, or very apathetic as a consequence – and you are unfortunate enough to be in the way of a vented rage.

So, we are forced to retreat (or should that be advance) to the subjects which do, at least, put warm behinds on seats and thus pay our wages: management and marketing. But even here, we are far from out of the wood. The Commission on Social Sciences provides a major indictment of our present professional condition in these disciplines (Box 2). Yet logically these applied disciplines should be the pinnacle and cutting edge of social science. If we do not seek rather urgently to rectify this condition, we will be in serious trouble very soon. The real world will stop paying our salaries. Whatever we may think of economics, it still matters where it counts – in the pocket, purse and wallet.

My core proposition is that we rather urgently need a more caring and less dismal science, or we need at least a more entertaining and challenging rhetoric and story if we are to continue to earn our keep.

---

<sup>5</sup> These sparse details of the decline in economics are taken from Alan Shipman, THES, May 2.2002, p 22, following the prescription of the discipline that effort should be kept to a minimum, commensurate with the benefit.

**Box 2: The Indictment: [The Commission on Social Sciences, 2003]**

The Commission has summarised some of the major problems with our disciplines (saving me the trouble and providing me with a convenient bastion from which to present my argument). *“The average quality level and utility of university research in business and management studies is unacceptably low and must be enhanced. There is a growing crisis of supply of top quality academics in economics and in business and management studies but also in other social sciences (and elsewhere in academia). It is caused by the attractions of alternative, better-resourced opportunities – not just low salaries though these are the major factor. .. We believe that legacy effects and mind-sets have led to social sciences research funding being mostly in relatively small packets. This has hampered social scientists from fulfilling their full potential contributions to enhanced understanding and to major policy issues. ... many economists are in despair about what they see as the progressive decline of their subject’s international standing and quality. This is attributed to the difficulty of recruiting top staff and good research students. .. Our greatest concern in regard to social science research is on that carried out in business and management studies. On all the evidence available to us, this is on average well below the calibre of other research we studied; its practical utility was also strongly questioned by supposed beneficiaries. .. One fundamental issue which faces all those commissioning research and many consumers of its results is the mismatch between the nature of the questions to be addressed and academic structures. Typically research questions as defined by those outside academia are ‘cross-cutting’; rarely can any one discipline or practitioner address it successfully. As think tanks have pointed out, the structures and the multiple commitments of most academics in universities can put academic social scientists at a real disadvantage in meeting ‘real world needs’. .. Despite the UK having individuals whose ideas shape global thinking, too few new ideas are generated or seen by research funders. Some research as a consequence is pedestrian or incremental; some is duplicative; a substantial fraction of it is carried out in weekends and holidays. We see the need to create ‘thinking time’ as one crucial contribution to improve the ills that we have identified. .. More generally, we believe there is a great need to ‘market’ social sciences more effectively: the lack of awareness of our contributions is widespread and influences what we get asked to do and what impact we have.”* (executive summary)

The Commission goes on. *“We have noted elsewhere that business and management studies are, in part at least, an important element of the social sciences. Many concepts underpinning these studies are derived from economics, psychology, sociology or other parts of the social sciences. Yet there is more criticism of this area than of any other area of the social sciences.”* (section 5.7.1).

We need to re-assess the fundamental strategic capabilities and distinctive advantages offered by economics (see Kay, 1993) and re-define our unique selling proposition. Even more importantly, we need to be much more careful about how we picture the way in which economics fits with the rest of the world, so that most people can find and live with a sensible position on the spectrum between those (few) who think economics is all that matters and those (apparently richer, possibly more thoughtful, and rather more numerous) who think it doesn't or shouldn't matter so much, other than as a necessary and rather inhuman servant.

### **What does Economics do and how does it fit?**

Economics is not too hard because it is intellectually difficult – the very reverse, since its intellectual content is fundamentally rather thin, in spite of the sophistication which concentrated thought can generate. It is considered hard because it does not care – it is animal, survival of the fittest and devil take the hindmost, with all humanity drained away. The core principles of economics are extremely simple, and as a consequence apparently very powerful. We economists reduce the complexities of life to their essence: how to earn a living (supply) and how to live a life (demand). There are, of course, no choices involved in these basic questions of life unless our resources (otherwise known as “capitals”) are finite. These resources come in various guises. As specified in the current sustainable livelihoods framework (DfID, 1999, Chambers and Conway, 1992), they can be identified as: natural; social; physical; human; spatial (Figure 1).<sup>6</sup> Logical (rational) use of these scarce resources to satisfy our near infinite desires generates the enormously powerful notions of opportunity cost and of comparative advantage, specialisation and trade. Our general equilibrium concepts and models are the consequence. General equilibrium shows that real supply curves necessarily slope upwards, and real demand curves necessarily slope downwards. It is logically impossible for them to do otherwise.

Furthermore, general equilibrium also demonstrates that pure self-sufficiency is daft, even if now possible at all for any but the fortunate few. People of all cultures learn this through trial and error – those societies learning these lessons best will progress (in its purely neutral meaning) more than those that don't. All of which is very neat and self-contained. But, there are two major buts (and a lot of more specific ones, which need not trouble us in this argument).

#### *But One: Who Chooses?*

The choices underlying the supposed equilibrium are determined by economic power (income and wealth), with the driving motivation as consumption. Investment is only a means to an end – more or at least sustained consumption in the future. The richer we become, the less

---

<sup>6</sup> The Sustainable Livelihoods framework does not separately identify spatial capital as a dimension of the overall resource base. Instead, it refers to financial capital. However, finance is the major means of converting both income streams and different resource bases into each other, rather than constituting a logically separate sort of capital. Positional (spatial) capital, on the other hand, includes a critical feature of much of our resource base – where it is in relation to people and other capitals, and including temporal relationships as well, in consort with our physical science cousins who now usefully define our universe in terms of a space-time continuum rather than simply space and separate time.



## What's the use of Economics?

pressing are these resource constraints and the greater are our feasible sets of choice. We face the curious paradox: the poor have very little choice – survival is all; the rich have so much choice that any given option carries very little salience – the difference between the opportunity costs and the benefits of many decisions is pretty marginal<sup>7</sup> – which makes actual choice extremely difficult as an academic or intellectual assignment, other than as an apparently random and ephemeral exercise, driven largely by fashion and whim, or politics, or something else. The scope for conventional rationality in this state of affairs becomes subsidiary to fashion, tastes and rhetoric.

Furthermore, the logic of the market place encourages the agglomeration and clumping of resources, at least in the medium term – since it is all driven by rent-seeking. As Marx (1887, 1897) famously observed, naked and unrestrained capitalism contains within it the seeds of its own destruction. Here, it should be noted, is a clear but seldom remarked distinction between the free market and capitalism. The former is the world of Adam Smith, relying on the freedom of individuals to pursue their own welfare, both as consumers and producers, competing with each other for necessarily scarce resources. The equilibrium outcome, under a freely competitive market, is a Pareto optimal allocation of resources, given the initial (and thus the continually market modified) distribution of these resources. However, even under this simplified system (absent any public goods and externalities, or complications of transactions and organisation costs) the inevitable dynamics of the pursuit of an ever-changing equilibrium (as technologies and tastes change) must result in temporary accumulations of super-normal profits, manifesting as pure rents in excess of transfer earnings and, thus, in wealth and power agglomeration.

Capitalism, however, goes one important step further. It divorces the ownership of capital from its operation and deployment, and encourages the trade of capital itself, thus facilitating the transfer of value from the declining to the growing sectors of the economy. The dynamics of these transfers of ownership and associated adjustments in the purchasing power of the assets generate additional agglomerations of wealth, and thus of economic power, as margins are shaved from the mere transfer of asset ownership and continual stock revaluations.

---

<sup>7</sup> Surely not so marginal? Well, consider the sorts of results we typically manage to produce on the social costs of market intervention – that the costs of farm policies (among the more massive of the social choices we typically deal with) are less than 1% of GDP – a trivially small sum in comparison with the supposed benefits (in terms of producer surplus at least) that these policies are supposed to generate. This looks pretty marginal to me.

## What's the use of Economics?

The system may be economically sustainable, in the sense that the resulting equilibria are neither explosive nor degenerative, but the tendency for initial distributions of wealth (resources) to become even more concentrated through the processes of both market and capitalist transactions is socially unsustainable. The rich become richer while the poor remain poor and immiserised, until the rich become so threatened by the poor that they do something about it, which leads to but two.

### *But Two: Collective Interaction & Public Choice*

The poor do something about it, and the rich recognise that they will, and thus take steps to preserve their power by doing just enough to dissuade the poor from doing too much. Competition for resources now becomes competition for the rights to social control, either as a means to individual prosperity and reproduction, and/or as a means to social enhancement (it hardly matters much which, or does it?). In any event, the discipline of public choice is born.

The anarchy of the ungoverned market economy is insufficient on its own to be socially sustainable, for two key reasons. First, the long arm of the law is necessarily attached to Adam Smith's invisible hand: to protect the specie; to enforce market contracts; define and protect property rights; and outlaw theft (e.g. Bromley, 1997). To implement and enforce contract authority, government must coerce society to conform to social laws and choices. As Dunn (1999) observes: "coercion is the core of states." To be sustainable, such coercion requires that regulation, law and order in society be accepted and legitimised by the governed.

Equal first, our expectations are frequently frustrated and our reliance misplaced, so we seek redress. We try to alter and manage the capricious and seemingly arbitrary distribution mechanisms of the market to achieve a more stable, sustainable and humane society. Capricious and arbitrary? How many Gates are never opened because of bad timing or misplacement? Our economic theory cannot explain initial endowments of wealth and capital (of all forms). Our theory relies on the continual pursuit of profit and rent, and on the happy accidents of well-fitted inventions, each leading to 'temporary' accumulations or differentiated distributions of wealth, which become augmented by life-cycle and inheritance effects - the accidents of birth.

In short, we get to choose whether or not to accept the social outcomes of trade and exchange, and its associated income and wealth distributions. These choices are necessarily made through the coercive state apparatus. We inevitably concede the power to make social or

## What's the use of Economics?

communal decisions (including the definition of property rights) to some social authority: some government. And, for the state to be sustainable, we necessarily have to respect this authority and its arbitration of disputes. Williamson, 2000, p 598f, notes that the market theory of property rights, following Coase, needs to take account of the costs and difficulties of organising and implementing the associated transactions. However, these theories necessarily presume that the arbiters and organisers themselves have the confidence and trust of the people involved, otherwise neither the rules of the game, nor its various plays, will be legitimised by the participants. We choose the games we play – it is game theory all the way down, and impossibly complex as a result.<sup>8</sup>

Necessary failure to win control over market conditions (enforced by the conditions of competition) for suppliers will inevitably lead to these ambitions for control being pursued through the political machinery of the state, as well recognised by Marx, even if incompletely pursued. Here, the marginal net returns to political action for suppliers are necessarily more concentrated than for consumers, simply because of specialisation in production. Consumer dominion over the market place is thus necessarily over-ridden by producer (or factor ownership) domination of public intervention in the name of fair and just distribution or of prudent economic management. Developed country agricultural policies are the archetypal examples, typically resting on arguments about just farm incomes or contributions to economic activity and trade balances, or, more recently, environmental (even social) care.

It follows that income distribution under any political economy general equilibrium, even under ideal competitive conditions, will be determined by political influence and authority, typically manifesting as an uneasy balance between the owners of capital and of labour. Right and left are thus natural manifestations of state politics. The former is predisposed to believe in the supremacy of the market, which apparently generates the factor incomes. Paid labour (and atomistic sectors), on the other hand, find themselves governed by the apparently capricious markets and avaricious capitalists and seek remedy through the political system. Arrow's impossibility theorem (see, e.g. Heap *et al.*, 1992, p 209ff) demonstrates that such systems, even if defined as perfectly as possible, will frequently generate inconsistent public preferences, and will thus cycle, depending on rhythms of conviction amongst (especially) the

---

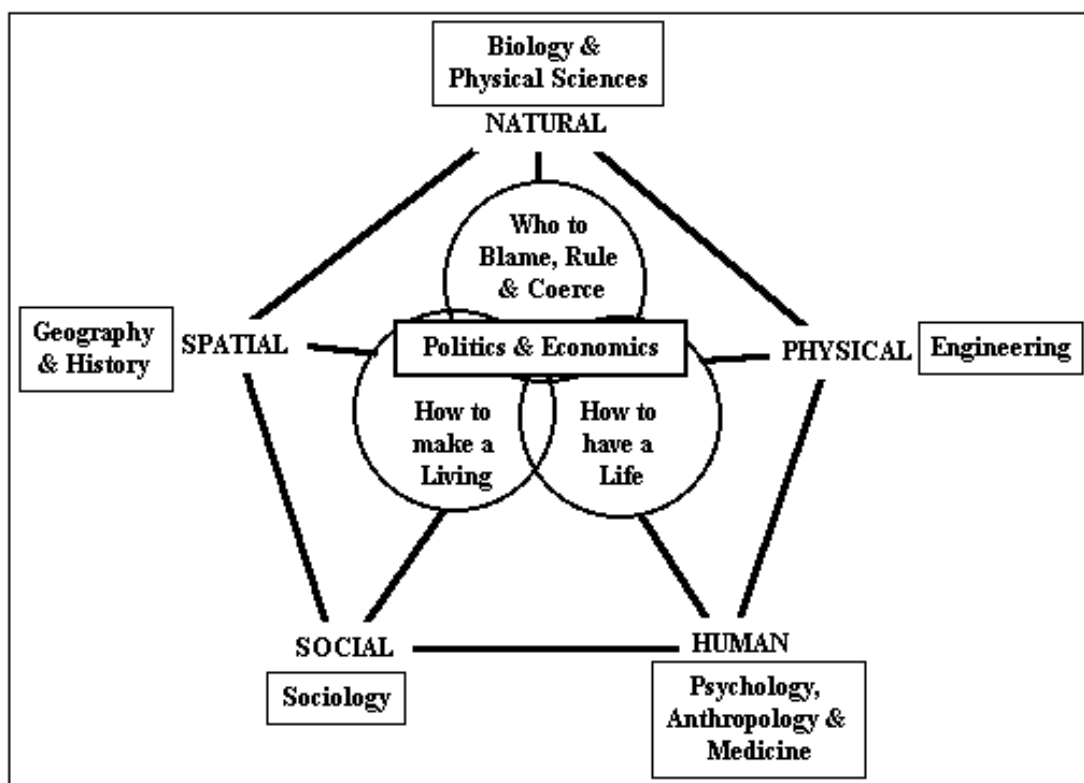
<sup>8</sup> For an exemplary and important exposition of the insights afforded by the game theory approach, see Barrett, S., 2003.

## What's the use of Economics?

labour constituency of the social desirability of unrestrained markets, and on the political control over the negotiating agenda.

In short, the apparently neat and self-contained theory of general equilibrium is not self-contained. It requires and exploits government – the most obvious social constraint on the animal magic of the invisible hand. Figure 1 illustrates the story so far – the structures of our social systems from an economical point of view. Through these systems we abuse and augment our finite resources through a process of choice, necessarily constrained, otherwise there is no choice.

**Figure 1** *The Structure of Social Systems – from an economic perspective.*



Our choices, both individual and collective, are subject to the laws of thermodynamics and physics, which manifest in social systems as the equivalent laws of economics – ultimately expressed in the circular flow of income.<sup>9</sup> The development of our human systems for making these choices is subject to a fundamental evolutionary logic – those that fit best with the surrounding social environments and political climates will survive, prosper, reproduce and perpetuate. Those that don't, won't.

<sup>9</sup> Ayres, 1998, provides a thought provoking analysis of the laws of thermodynamics along rather different lines.

## What's the use of Economics?

But the critical difference between social evolution and its natural ancestor is that we get to choose who lives and dies – we try to govern ourselves, rather than submit to the apparently capricious authority of the bio-physical given outside determinants (g.o.ds). Our institutions - our social codes, realities and authorities (North, 1990) – are the manifestations of the ways we choose to do this – our governance structures.<sup>10</sup> These are, however, also subject to continual competition with each other, and thus subject to re-invention and adaptation in a blind pursuit of better fits. Social science, if it is to make any difference, must be focused on providing light and sight to this blind pursuit. How might social science more profitably pursue this ambition?

### How should we do Social Science?

Figure 1 illustrates the approximate structure of our social (and natural) sciences in starkly economical terms. But it does not provide any clue about how these systems work, or how we might profitably study them. It is here, amongst our methodologies, that we face the most critical internal fractures in our social sciences. These fractures, and the factions they generate, are fundamental to the development of social science. In many ways, they reflect and ‘problematise’ the fractures exhibited by our students and paymasters about the relevance of the various social sciences to real world problems. Box 3 illustrates the nature of the challenge, from the particular perspective of the contributors to *Ecological Economics*. Relatively diligent literature searches will reveal similar disquiet throughout the social sciences. Postmodernism is rife, whatever else it is. The principal post-modern notion - there are no facts, there is no objectivity: all realities are merely conceptual constructs, and thus subject to inevitable and continual re-interpretation and dispute - is an alternative theory: it all depends. But, on what and how does it all depend? If postmodernism is “right”, what does this mean for policy analysis and advice, for management strategy and tactics, and ultimately for leadership and governance?

Policies (and, equivalently, business strategies) are the outcomes of these disputes and associated negotiations. The fundamental aim of policy (or business strategy) is to generate a consensus for and pattern of social and organisational authority. Such a consensus necessarily implies a ‘meta-narrative’ of some form - a story or discourse<sup>11</sup>, as a common understanding of the way the world works, notwithstanding the post-modern view that such

---

<sup>10</sup> Harvey, 2001b, provides an outline of where this strand of thought might lead.

<sup>11</sup> See, for example, Dryzek, 1997.

meta-narratives are merely figments of imaginations (e.g. Midmore, 1996). It is by imagination that we survive and, if possible, progress.

**Box 3: Methodological challenges – Illustration from *Ecological Economics*.**

Jackson (2002) concludes a recent survey of evolutionary psychology with the following challenge to ecological economists. “*Ecological economics faces three possible avenues of response to this stark message (that sustainability does not come naturally). The first is to accept the worldview of evolutionary psychology and to construe its lessons as casting serious – possibly even terminal – constraints on the project of conceiving sustainable development. The second is to accept the worldview of evolutionary psychology, but to search within its constraints for ways of influencing human behaviour towards sustainable development. The third is to question (and perhaps reject) the epistemological basis of evolutionary psychology and the metaphysics that supports it.*” (p. 299). “*Ecological economics must take some position in relation to models of human behaviour. ... If one accepts the evolutionary psychology worldview, then there is clearly a difficult task ahead in formulating within it a concept of human and social agency compatible with sustainable development. If one rejects the evolutionary psychology worldview, then we are faced with what is perhaps an even greater task: namely, the establishment of an epistemological and metaphysical basis for a more optimistic view of human nature.*” (p. 301).

Jackson's third option is not the route being taken. Serious analysts of the socio-natural interactive system are convinced that the only way of representing this system is as a co-evolutionary system, where (e.g. Ehrlich, 2000) humans and nature co-evolve with both their ecologies and their cultures. However, Costanza, 2001 (who regards Ehrlich's exposition as “a ‘must-read’ for anyone claiming even a passing interest in ecological economics”) objects that Ehrlich “gives very little space in his book to the details of how cultural evolution works, and does not attempt to synthesise the research in this area in anything like the completeness with which he treats human genetic evolution.” But, Ehrlich and his supporters might well argue, the candidate social science theories and frameworks are just too great and disparate to allow such a synthesis, while Costanza does not indicate that there are any substantive attempts at such a synthesis.

Yet Jackson's second option, which looks for development within evolutionary psychology and its constraints, is miss-framed – there are clearly other specifics of the species *homo sapiens* which cannot be ignored. Indeed, the growth in candidate theories and worldviews of human behaviour relevant to ecological economics amounts to a near explosion. As Jansen and Jager (2000) remark, editing a special issue of *Ecological Economics* devoted to “exploring interesting possible alternative descriptions of the human actor in ecological economics”: “*the various disciplines studying human behaviour, like economics, sociology, anthropology, and psychology, are rather fragmented, offering distinct theories for every topic*” (p. 307). It is readily apparent that *homo economicus*, while providing some important insights into human behaviour, is hopelessly incomplete (e.g. Gintis, 2000; Jager *et al.*, 2000). *Homo politicus* (e.g. Faber *et al.*, 2002; Nyborg, 2000; Sagoff, 1988), *homo psychologicus* (e.g. Jackson, *op cit.*; Faber *et al.*, *op cit.*), *homo socialis* (e.g. Rudd, 2000), *homo legalis* (e.g. Scott, 1999), all have well supported claims to be represented in a more complete picture of *homo sapiens*.

It is these stories that provide policy and strategy with their coherence and legitimacy (or not). Clearly, at least the economic part of our present (economic) common model story has not yet

## What's the use of Economics?

achieved this consensus. Perhaps it cannot (e.g. McClosky, 1983; Randall, 1993; Bromley, 1997). For post-modernists, our common model is either a chimera, or else a mere facade for ulterior, even malignant motives. But, as Tweeten and Zulauf (1999) remark, (p 1170) "postmodernism is the antithesis of the Anglo-American analytical thesis. Out of the resulting dialectical synthesis, however, an enriched new philosophy of science could, and we believe, will emerge." As Lord Dahrendorf (1995) put it: "There remains a common theme for a science of human society, and that while much progress has been made in developing its various facets and aspects, it is still important to try and tie the parts together - not in search of a 'world formula' but to make sense of the social habitat in which we live, have lived and are likely to live". This challenge has still to be met.

### **Some Elementary Philosophical Foundations**

The essence of any science is to reliably discern the nature of the underlying systems that generate the data we observe and the conditions we experience. The synthesis of social science thus implies a consensus about the general nature of our human social systems. We are presently far from such a condition. At root, there are fundamental disputes over our philosophical conceptions.

Economists seldom worry about philosophy, but our fellow social scientists spend considerable effort thinking about the philosophical bases of their disciplines and methodological approaches. If we are to bridge the gaps, economists must get used to the conceptual currencies used in these debates. More than that, philosophers have worried about how we should best pursue science, knowledge and understanding almost since humans first became conscious and discovered that they could think. It is both churlish and stupidly arrogant to suppose that they do not have anything useful or sensible to say.

In particular, philosophers have worried about:

- How we know what we think we know, under the general heading of **Epistemology**, "the theory or science of the methods or grounds of knowledge"(OED);
- What we count as facts, as objective and reliable information and data - **Ontology**: "the science or study of being; that department of metaphysics which relates to the being or essence of things, or to being in the abstract"(OED);
- How and why we think the world works and behaves - **Metaphysics**: "that branch of speculation which deals with the first principles of things, including such concepts as

## What's the use of Economics?

being, substance, essence, time, space, cause, identity, etc.; theoretical philosophy as the ultimate science of Being and Knowing"(OED).

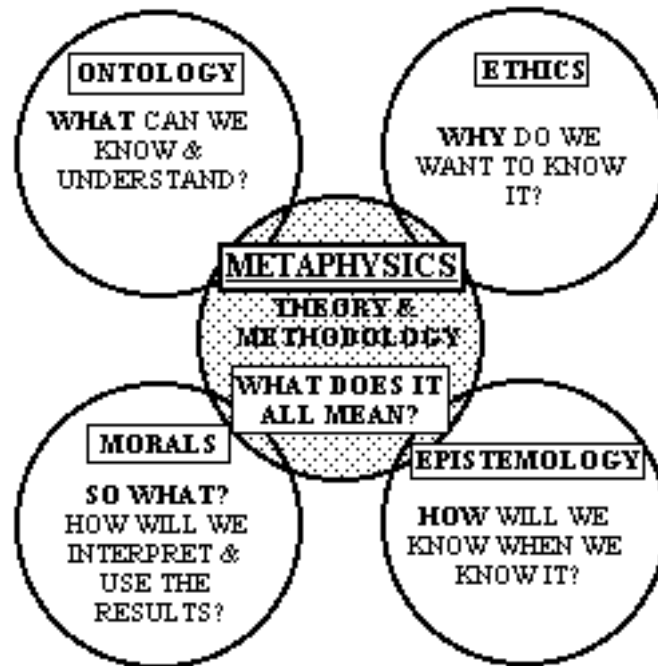
Social scientists, other than economists and psychologists, are particularly concerned about their ontologies and epistemologies, which can be translated as sensible concerns with the processes through which we think the data and conditions we observe and theorise are generated. Clearly, what we count as data (some form of observable phenomenon or event) matters considerably for the sort of science we think we can do. So, too, do the methods of validation and verification that we can then apply to these data. Put in these terms, it is, perhaps, surprising that most economists do not consider that philosophical questions are any concern of theirs. As with most bio-physical scientists, we are inclined to take the answers to these questions for granted, assuming that the class of observable phenomena and events is obvious for all practical purposes, and that the problems of testing and proving these data are matters of logic and reason, more or less amply and sensibly solved by our logical, statistical and quantitative techniques.

Certainly, at least in the fields of bio-physical sciences, if not also in economics and psychology, we can point to profound and extraordinary progress having been made, and still being made, using these traditional and classical scientific techniques. Perhaps our complacency is well justified as rational ignorance. Or, perhaps we should be more concerned that the purest of all practical sciences – physics – is now discovering that the apparent objective reality of our universe does not appear to go all the way down. When we arrive in the realm of sub-atomic particles, which can only be satisfactorily explained through quantum mechanics, we discover that “nothing is real unless it is observed” (Gribbin, 1991, p3) and that, worse, reality depends on how we observe it (the Aspect and double-slit experiments). If this is true at the most fundamental level of our universe, then how can we possibly pretend to practice science as exogenous and external observers? Our independence, disinterest and objectivity is necessarily denied if this is true, and with them many of our presumptions about the merits of the classical scientific method.

The situation is even worse for social scientists. For us, and our data, it is not just the how and what (the ontology and epistemology) that should bother us, but even more importantly, the *why* (**ethics**) and the *so what* (**morals**) should also be of special concern (Figure 2).



*Figure 2. Philosophical Questions.*



Even more surprisingly, the philosophical debates that preoccupy our fellow social scientists seldom pay much formal attention to these important branches of philosophy, though they clearly concern a considerable fraction of our human colleagues – especially those who are inclined to treat economics with disdain or who regard commerce and trade as inherently selfish and abusive, if not actually malign – amoral, if not actually immoral.

When viewed in this light, the case for postmodernism or relativism seems unanswerable – of course our social worlds are of our own making, and of course they are incurably and inevitably context and circumstance specific and dependent. So what? We have been here before - Box 4 – remove all references to Greece, Athens and replace Sophists with post-modernists, and this extensive quote could easily apply to our current condition.

But, as social scientists rather than simply social commentators, we have to believe that there are some discernable patterns and associations in our social behaviours and systems, and furthermore that at least some of these patterns and associations will prove to be more than ephemeral, if not global or universal. We live our lives according to certain expectations about how our social worlds will behave. Of course, we frequently make mistakes and are confounded. But we learn from these mistakes and adjust (sometimes) our expectations, or at least learn not to rely on failed attributions. How do we come by our working rules, our social

institutions, to which we are prepared, however reluctantly and disputatiously, to concede authority?

**Box 4: Relativism - we have been here before (Tarnas, 1991)**

*“According to the [Sophists], man was the measure of all things, and his own individual judgements concerning everyday human life should form the basis of his personal beliefs and conduct - not naive conformity to traditional religion nor indulgence in far-flung abstract speculation. Truth was relative, not absolute, and differed from culture to culture, from person to person, and from situation to situation. .. The ultimate value of any belief or opinion could be judged only by its practical utility in serving an individual's needs in life. This decisive shift in the character of [Greek] thought, encouraged by the contemporary social and political situation, owed as much to the problematic condition of natural philosophy at that time as to the decline in traditional religious belief.. a chaos of conflicting ideas, with no basis upon which to certify one above the rest. ... Since religious beliefs, political structures, and rules of moral conduct were now seen to be humanly created conventions, these were all open to fundamental questioning and change. .. Since it was futile to seek absolute truth, the [Sophists] recommended that young men learn from them the practical arts of rhetorical persuasion and logical dexterity, as well as a broad spectrum of other subjects ranging from social history and ethics to mathematics and music. .. Through such a programme .. both the individual and society could better themselves. Thus the [Sophists] mediated the transition from an age of myth to an age of practical reason. Man and society were to be studied, methodologically and empirically, without theoretical preconceptions.*

*Despite the positive effects of their intellectual training and establishment of a liberal education as the basis for character formation, a radical scepticism towards all values led some to advocate an explicitly amoral opportunism. Students were instructed how to devise ostensibly plausible arguments supporting virtually any claim. More concretely disturbing was the concurrent deterioration of the political and ethical situation in [Athens] to the point of crisis - the democracy turning fickle and corrupt, the consequent takeover by a ruthless oligarchy, the [Athenian leadership of Greece] becoming tyrannical, wars begun in arrogance ending in disaster. .. All these developments had their own origins and motives, and could hardly be laid at the feet of the [Sophists]. Yet in such critical circumstances, the philosophical denial of absolute values and sophisticated commendation of stark opportunism seemed both to reflect and to exacerbate the problematic spirit of the times. The [Sophists'] relativistic humanism, for all its progressive and liberal character, was not proving wholly benign. The larger world opened by [Athens'] earlier triumphs had destabilised its ancient certainties and now seemed to require a larger order - universal, yet conceptual - within which events could be comprehended. The [Sophists'] provided no such order, but rather a method of success. ... Indeed, the whole development of reason now seemed to have undercut its own basis, with the human mind denying itself the capacity for genuine knowledge of the world.” (p27ff.)*

### **A Speculation on the Nature of Social Authority.**

Authority is the capacity of ideas to influence and, in the limit, control our behaviours. Without a common idea shared between source and subjects, any authority (whether of theory, ideology, person, office or organization) is empty. Our working truths - our world-views – are the ideas by which we govern and regulate our own (and, if possible, other peoples') lives. How and why do we generate (never mind venerate) our authorities as practical, workable and acceptable sources of social truths?

Social truths are clearly of our own making. We may re-interpret the philosophical underpinnings of truth (see, as an economical reference, Edwards, 1967) for the principal dimensions of social truth as the four Vs, as follows:

- a) Veracity: what will sell to constituents, either through market places or governing bodies, which establish the accepted social *reasons* for behaviour, whose correspondence or consistency with social responses is continually tested by repeated behaviours – the correspondence theory of truth;
- b) Validity: what can be established beyond reasonable doubt through logic and science, or which are enshrined in the laws adopted and accepted by societies, which establish the *rules* accepted by societies, and ensure their coherence, both within themselves and between themselves and bio-physical world – the coherence theory of truth;
- c) Value: what are taken as articles of *faith*, as self-evident truths, established as what works and should work, and analogous to the performative theory of truth;
- d) Vernacular: the village, urban, or street *myths*: the habits and conventions inherited from the past and neighbours, without direct or explicit reference to either rules, reason or faith – the pragmatic theory of truth.

As might be expected, there is an apparent mapping of these different dimensions of truth with the major branches of philosophical enquiry: veracity concerns the epistemological nature of our data (our social observations) – does it fit with or correspond to our experience; validity concerns the ontological nature of our social world – does it correspond to our perceptions of the logics or relationships we expect to find when we look; value concerns the ethical aspect of our world-view – is the phenomenon or event good or bad, worth preserving and pursuing or not; vernacular concerns the moral aspect – is this pragmatic or practical response (attribution or perception) right or wrong. Positivists (the classical sciences) are

## What's the use of Economics?

largely concerned only with veracity and validity, while relativists are fundamentally concerned with ethics and morals, even though they seem curiously reluctant to admit to phrasing the pursuit of knowledge in this fashion, preferring to suppress the principal motive powers of social relativity (morals and ethics in this categorisation) as essentially and fundamentally unknowable, and therefore beside the point for practical science or social enquiry. But, if this is true, then social science is impossible.

Furthermore, a little introspection also appears to confirm that our behaviours are ultimately sanctioned or grounded on one of three critical cornerstones: *rules* – our given outside determinants (g.o.ds) establishing our permission to get away with it, granted by bio-physics and the codes of our neighbours and peers; *reason* – what makes sense to us as being coherent and valid; *faith* – what our personal belief and value systems determine to be worthwhile. Of course, most of us, most of the time, behave largely out of *habit*, rather than waste valuable time and effort continually appealing to these cornerstones. However, as and when habitual behaviour turns out to conflict sufficiently badly with any of the three cornerstones, we will adapt and adjust our habits (and possibly become a little more civilised as a result, providing that our society is itself reasonably civilised). Once again, the correspondence between these cornerstones and the fundamental bases of social truth is not to be ignored. It provides a logical basis on which to found a more general social science – let me explain how.

### **Box 5. A Postscript on "the scientific method":**

The following true story concerns a question in a physics degree exam at the University of Copenhagen: The question was: "Describe how to determine the height of a skyscraper with a barometer." One student replied:

"You tie a long piece of string to the neck of the barometer, then lower the barometer from the roof of the skyscraper to the ground. The length of the string plus the length of the barometer will equal the height of the building."

This highly original answer so incensed the examiner that the student was failed. The student appealed on the grounds that his answer was indisputably correct, and the university appointed an independent arbiter to decide the case. The arbiter judged that the answer was indeed correct, but did not display any noticeable knowledge of physics. To resolve the problem it was decided to call the student in and allow him six minutes in which to provide a verbal answer that showed at least a minimal familiarity the basic principles of physics. For five minutes the student sat in silence, forehead creased in thought. The arbiter reminded him that time was running out, to which the student replied that he had several extremely relevant answers, but couldn't make up his mind which to use. On being advised to hurry up the student replied as follows:

"Firstly, you could take the barometer up to the roof of the skyscraper, drop it over the edge, and measure the time it takes to reach the ground. The height of the building can then be worked out from the formula  $H = 0.5g \times t^2$ . But bad luck on the barometer."

"Or if the sun is shining you could measure the height of the barometer, then set it on end and measure the length of its shadow. Then you measure the length of the skyscraper's shadow, and thereafter it is a simple matter of proportional arithmetic to work out the height of the skyscraper."

"But if you wanted to be highly scientific about it, you could tie a short piece of string to the barometer and swing it like a pendulum, first at ground level and then on the roof of the skyscraper. The height is worked out by the difference in the gravitational restoring force  $T = 2\pi\sqrt{l/g}$ ."

"Or if the skyscraper has an outside emergency staircase, it would be easier to walk up it and mark off the height of the skyscraper in barometer lengths, then add them up."

"If you merely wanted to be boring and orthodox about it, of course, you could use the barometer to measure the air pressure on the roof of the skyscraper and on the ground, and convert the difference in millibars into feet to give the height of the building."

"But since we are constantly being exhorted to exercise independence of mind and apply scientific methods, undoubtedly the best way would be to knock on the janitor's door and say to him 'If you would like a nice new barometer, I will give you this one if you tell me the height of this skyscraper'."

The student was Niels Bohr, the only person from Denmark to win the Nobel prize for Physics. The last of these answers is, of course, the economic answer, in virtually all senses of the word! *The moral?* Measurement (observation) can be completely divorced from the data generation process and still yield accurate results, but to what end?

### **Social Transactions and Negotiations of Social Authority.**

Since objectivity is fundamentally denied to social scientists, we need a better definition of its surrogate - social acceptability through persuasion and conviction. Only idiots and geniuses can typically survive for long holding fundamental subjective beliefs seriously at odds with at least some peer or reference group. Survival requires that the rest of us earn (or otherwise obtain) food, shelter, income, recognition and (hopefully) respect from others. At a higher level than mere survival, our self-respect requires that our subjective views appear to us to have some wider social value, even if as yet unappreciated by our peers and reference groups. In other words, our own survival requires consent from others for our continued prosperity and freedom, if not continued existence. Our self-respect requires permission from society for us to try and practice persuasion, emotional conversion and intellectual conviction.

If we are determined to be subjective, then we will ultimately need to persuade a substantial number of others to agree with us, otherwise they will deny or ignore our right to exercise our individuality. In so doing, we either need to be a dictator or a prophet, or make a profit. Unless, that is, we can otherwise convince others through reason and argument to accept (and thus compromise) each others' subjectivity, thereby transforming it into some modest

## What's the use of Economics?

consensus. These are our only routes to sustainable authority - the continued and defensible power of an idea to command respect. So, how do our social systems grant us this permission and provide us with social acceptance?

We persuade and convince ourselves of social truths through social transactions and negotiations. The principal forms of social transactions have been identified by Boulding, 1973, echoed by de la Mothe and Paquet, 1996, and also, apparently unwittingly, by Strange, 1994, as: gifts from those who love us; tributes from those who fear us; or exchange with those willing to trade with us. In addition, though, many of our social transactions are practically autonomic: governed by habit, routines, customs and traditions. We use these four basic transaction systems in different mixes and balances, to govern and organize our businesses and societies.<sup>12</sup> How?

These four principal negotiation systems - consent, coercion, contract and convention - are each concerned with social interactions and transactions which co-establish accepted practices and more or less reliable expectations of mutual behaviours and responses. Each, then, helps to construct a concept of social truth - a picture of the way the world works and can be expected to continue working.

Each of these transaction systems (as common views of the way the relevant bit of the world works), is necessarily founded on and thus defined according to its reliance on the three cornerstones of faith, rule and reason - the triumvirate of firm foundations for our social truths. Unless agreeably based on these pillars, any society or community will, eventually, question and undermine the social organizers through which we generate consensus and social authority. The balance of reliance among the cornerstones will shape the organizing plane or negotiating agenda, and thus mould the reflection (and refraction) of social truth produced through each transaction system.

The *consent* transaction system can be roughly outlined as concerning informal social interactions, carried out on the basis of trust or faith in our friends, neighbours and lovers, as

---

<sup>12</sup> Manski, 2000, in addressing the issues of economic analysis of social interactions, deals with a much larger set of transactions or negotiations. These more detailed and specific interactions may, however, be thought of as species or genus within more fundamental or general phyla of transactions. In the interests of parsimony and of generality, this conjecture is confined to the primary divisions or sub-kingdoms of social interactions.

## What's the use of Economics?

well as the reason from our own intellect (the head) and the rules of emotional empathy (the heart).<sup>13</sup>

*Convention* is seen here as capturing the more formal social rules and rulers which communities and societies establish through political interaction, which become enshrined in the various forms of 'ocracy we develop to manage our public or collective affairs: plutocracy, autocracy, theocracy, and finally (?), in despair with all the rest, democracy, and all the bureaucracies that are associated with them. As far as democracy is concerned, this transaction system is founded on faith in the 'ocracy, the reason of the rhetoric and debate, and the rule of the majority.

*Coercion* applies the force of law to enshrine the most salient of our social contracts and behaviours in formal codes, based on faith in the legislature, the rule of the law and the reason of jurisprudence and the courts. It is this transaction system that ultimately defines the state (Dunn, *op. cit.*).

*Contract* is, of course, at the heart of our economic transactions systems – the basis of trade, specialisation and comparative advantage, based on faith in self interest and the resulting invisible hand, the reason of economic logic and the rule of the market.

While many will quarrel with this bold and simplistic attempt to capture the essence of human behaviour in such simplistic and fuzzy terms, it is sufficiently plausible for present purposes to provide an illustration of the overall systems of human behaviour. And, of course, by their opposites – conflicts in all their various forms. No doubt much further work and debate is necessary to refine and extend these concepts and ground them in both the literature and empirical evidence. However, the precision of the ideas is not critical at this stage. Semantic debate is of course necessary and useful, but can only make serious sense when coupled with a grammar of the supposed interactions (the processes through which the phenomena characterised through the semantics interact) and, still more, with an overall story of how these processes themselves tell us anything helpful about the way the world works, and thus how we might expect it to behave. Semantic debate is necessary, but not sufficient.

This interactive system can be pictured with each of these four transaction systems as one face of a quadrilateral pyramid. The reflection and refraction of these four cognitive planes

---

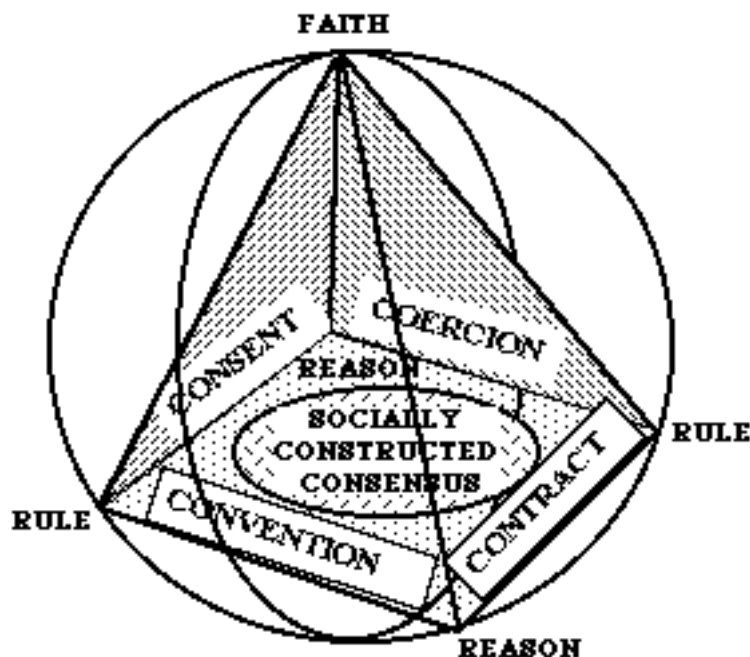
<sup>13</sup> Frank, 1988, provides a substantial and compelling account of the role of emotions in the conduct of social (especially economic) transactions.

## What's the use of Economics?

(agenda) on the ground where we live then forms our socially constructed vernacular. We use this 'consensus' to build and grow our institutions - our social codes, realities and authorities (North, 1990). The outline logic is illustrated in Figure 3 below.

Of course, the characters and the cultures of our particular communities and societies will affect the ways in which we construct our social realities. So, too, will the contexts and circumstances in which we find ourselves, as the product of our own unique histories, and the accidents of our geographies. These ever-changing four Cs (character, culture, context and circumstance) will cloud and obscure the essential systematics, so the picture implies a continual spin and revolution of our vernacular authorities, as illustrated in Figure 3. Furthermore, the orientation of this construct depends on where you stand. Faith may not be your apex. As the postmodernists argue, give it any spin you like. And then see if you can get away with it. Figure 3 is an illustration of the logic of post-modernism, with the single and important exception - it conceives of a system, a metaphysic, which 'explains' the post-modern condition.

**Figure 3** A logic of authority



Take the case of the World Trade Organisation. [Readers can add their own examples as they see fit, as tests of the framework.] Economic arguments are here defined to lie on the south-east baseline. Spin it round so that it becomes the north-west baseline, if this fits better with your world-view. Economic faith consists in belief in the rules and reason of economic logic,



## What's the use of Economics?

which leads to competitive markets, free trade and voluntary contract. This view of the world remains somewhat removed from the vernacular consensus, as well demonstrated in Seattle and since. There, the demonstrators exhibited a variety of perspectives more or less identifiable as being north-west of the establishment consensus, (or south-east if you give it a different spin) complaining that at least their consent to the WTO's largely economic perspective is not to be taken for granted. Meanwhile the international lawyers have us all caught in the vice between the north-east and south-west baselines - the interplay between convention and coercion, with consent and contract squeezed out of the consensus. Authority is contested. Which is socially catastrophic or entirely legitimate, depending on your perspective and position. The point is, it is natural. Which strongly suggests that it was ever thus. Our present condition and circumstance is no more pivotal than the earth is to the solar system or universe. We have been here before (Box 5 above). Indeed, we are very possibly condemned to reside here indefinitely, if we should all be so lucky as to live for so long.

### **So What? Reconsidering Government and Governance**

Governments exist to exercise this social authority. They are a necessary co-invention with human markets, providing the social legitimacy of free (collective) will and associated choice of which transactions to accept or reject. Neither can exist without the other, so our synthesis is necessarily of public choice and political economy. Furthermore, governments naturally generate oppositions. We have learned that it is better (more efficient, if not more sustainable) to formalise and respect such oppositions, through the practice of democracy, than to condemn them to be covert. But democracy only seems to work when we feel sufficiently wealthy, secure and well-educated to tolerate overt opposition. Otherwise, we necessarily submit to (or seek to exert) some other form of 'ocracy.

Governance, in contrast, is how we choose our governors; how we erect our authorities and elect our leaders; how we breed and cultivate our ideas and institutions - our social selection criteria and rules for behaviour. Up to now, our history suggests that we have been lucky in allowing the social evolution of governance to take a natural, unmanaged course, apparently culminating in economic liberty, universal suffrage and democracy - the common model.

But now we have run out of room for mistakes. There is no longer uninhabited or sparsely populated territory to escape to or expand into. There is no away to throw to. We have to live with, and, if at all possible, from our own waste. And we cannot rule without also being ruled. We run the substantial risk of being ruled by an uninitiated and frequently mis- or

under-informed majority, or of repeating the past in seeking to impose minority rules and rulers. Is the common model up to this challenge? Convention says yes: democracy and associated coercion are necessarily inefficient, but better than all the rest. And surely we can make them better. But to do so requires that we admit to their shortcomings and understand better what it is we are trying to do. Which is what?

### **The trade-off between Private and Public Interest**

In essence, we are balancing private and public interests, where each interacts with the other. We are driven by guilt (self-interest) and guilt (public interest), which are essentially the same, except that one has a 'you' in it. Our human free will consists essentially in making this choice. And, the richer we become, the greater the scope and responsibility we have for this choice (see, Margolis, 1982).

Self-interests can be roughly characterised according to the simplistic Maslow hierarchy: physiological; safety and security; belonging.<sup>14</sup> Social science literature is more reticent about a corresponding characterisation of public or social needs.<sup>15</sup> Strange, 1994, as one of the thinkers to give socio-political objectives prominence, asserts four fundamental social goals: wealth, security, freedom, justice. However, her characterisation mixes aspirations and fulfillment with underlying needs and motives. The security and stability of a social system is inherently dependent on the processes used to achieve balance between private and public interest, and the capacity of the system to resist internal fracture and external threat. In turn, freedom has to do with the extent to which private interests are given free rein within the social system. Since the fundamental role of (collective) free will is to achieve a sustainable balance between private and public interest, it seems sensible to characterise the goals of governance directly as a balance between the two (again following Margolis, *op cit.*).

Efficiency and effectiveness (the primary focus of mainstream economics) is a basic or primitive social need. Once secured, however, our history suggests that we become more

---

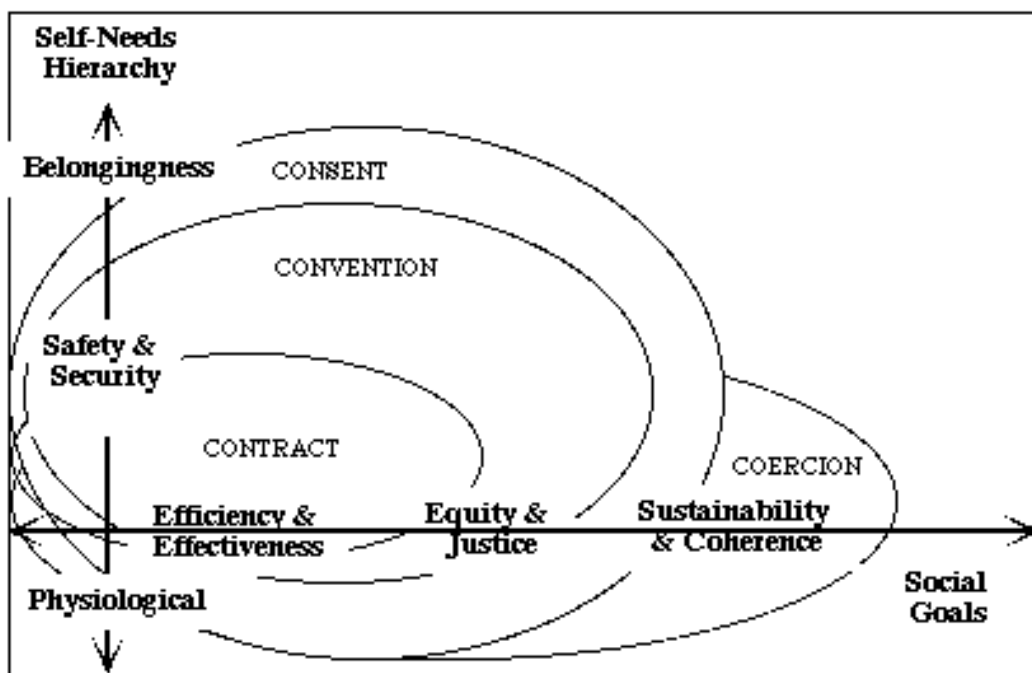
<sup>14</sup> The Maslow hierarchy is frequently regarded as overly simplistic. However, it suffices here for illustration of the argument. For a discussion of the psychological understandings of egotistical needs and self-interest, see, for example, Steers *et al.*, 1996, p 13ff.

<sup>15</sup> The social psychology literature does deal extensively with 'helping behaviours', though these explorations are typically restricted to individual behaviours and actions towards other specific individuals, rather than with a generic notion of the public good. However (Banyard and Hayes, 1994): "there is a growing body of evidence which suggests that altruism may be an important and frequent form of social behaviour which serves to ensure social cohesion" (p 477), while Margolis, *op. cit.*, develops an economical theory of altruism, and Frank, *op. cit.*, explores the roles of passion and emotion in shaping our transactions.

## What's the use of Economics?

concerned about justice and equity, even if only to assure the reproduction of our society without major internal fracture, about which our formal economics has nothing to say. Indeed, it is these concerns, and our beliefs that we can and should do something about them, that fundamentally distinguish us from our animal cousins and ancestors. The naive economic assumption that allocation questions can be divorced from issues of distribution, though powerful, is a critical shortcoming of present policy analysis and management strategy. Over and above justice, we become concerned about sustainability and coherence, as reflected in present heightened anxiety over the long-run sustainability of human organizations and exploitation of the planet's limited resources and waste-disposal capacity, not to mention our continued search for the meaning of it all - for a more common model. Our social goals, as Strange's, *op cit.*, quartet of wealth, security, freedom and justice, can thus be seen as the harmonious and simultaneous satisfaction of both self and public interests. Human progress, such as it is, can now be pictured as the growth of these two axes, and of the associated field over which we choose our governance systems, as illustrated in Figure 4.

**Figure 4. Conjecture of Transaction Systems & Private vs. Social Interests**



This figure includes a conjecture about the relative efficacy of each of the major transaction systems in achieving our social goals. According to this picture, the present common model,

## What's the use of Economics?

dominated by contract, convention and coercion, has no hope of achieving social harmony.<sup>16</sup> It should be fragmenting and decaying as we speak. Perhaps, as some say, it is and we haven't noticed. If so, how come it appears to be doing so well?

### **The common model in practice**

Our economic common model in practice is still evolving - as it is bound to. Our markets are already learning that organizational survival and prosperity requires much more than simply convention, contract and coercion. The fashionable notion of stake-holding means, if anything, that successful commerce requires the continued consent, if not commitment and care, of all involved in the market or policy chain, from raw material supplier through labour and capital owners and users to final consumers, both present and potential. The final product is no longer, if it ever was, the only thing produced. Ideas about the way the world might be and should be are also produced and sold, inevitably and necessarily packaged with the products, and with their production and transaction processes. And it is these ideas that provide the basis for trust (or not) that commerce (or government) are behaving themselves, being socially as well as privately responsible. So commerce is beginning to take care to foster and nurture these ideas, and government is somewhat tardily following suit. Self-interest is necessarily enlightened; if not, then it is ultimately self-defeating (Marx again). Furthermore, the sustained exercise of market power necessarily involves its dissipation or regeneration, as engineers and physicists have long known. The rules by which commerce governs itself are continually adapting and developing. Multinationals can only get away with pursuing demonstrably anti-social practices and behaviours if they are allowed to by their customers and labour forces, as the Brent Spar and genetic engineering episodes well demonstrate.

Apart from choosing governments, and trying to seek out those governments we would prefer to live under, we also erect and subscribe to non-governmental organizations to assuage our

---

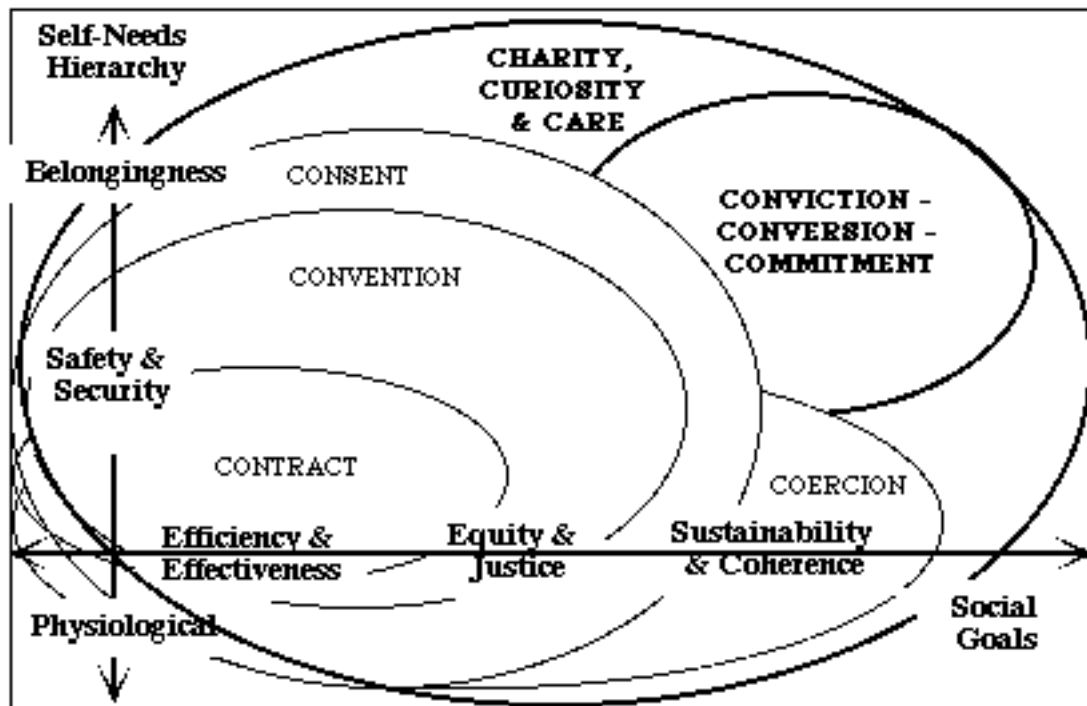
<sup>16</sup> You may object that consent is also included in the common model - that being the point of universal suffrage and democratic control. I reply that one cross on one piece of paper every few years, in one specific locality, hardly qualifies as a transaction system for consent. Convention is a more accurate description of our present democratic transaction systems. By convention, we erect our leaders and parliaments to govern on our behalf, while retaining the rights to dissent from their edicts and throw them out of office as and when we have had enough of them. The ubiquitous resort to pressure groups, protests and social disobedience are the exact responses to be expected from a lack of general consent or to the means of continually granting it. If such protest does not reflect a widespread lack of consent, then it will wither and die - it will not command sufficient popular support to be tolerated. It is not obviously withering; the very opposite. And, if we are not sufficiently antagonised by our conventions to be antipathetic to them, we lapse into apathy. Which is a chronic condition of our present conventional democracies. So I stick to convention, and protest that it is not enough.

## What's the use of Economics?

guilt and satisfy our human social instincts - not on the basis of contract but on the foundations of care, commitment and charity. The growth of 'clubs': charitable organizations, interest and pressure groups, NGOs etc. (and all the public-interest dominated and thus altruistic economic activity that goes with them) are expressions of the spokes and species of transaction which are missing from our common model. The richer and more secure we get, the more important and widespread these activities become. And the more they are likely to conflict with the established rules and rulers. Majority rule, or the rules of the presently powerful, cannot resolve these differences, since such rules imply unanimity and homogeneity, denying the engine and motive power of evolution and selection. Both markets and governments can only go so far, and not far enough. We need more competition in our governance systems - more scope for differentiation and adaptation, and more freedom of selection, more freedom to choose. This is the principal point of this argument. We are missing the nature of the patterns that brought us to our current state - there is no common story to go with the common model. The collapse of the Berlin Wall is not simply a demonstration of the power of the market, of the selection process at work. It is, perhaps above all, a challenge to the western world to do better, and thus, necessarily, to understand better what it is and does, and, even more importantly, why. According to this outline logic, there are several transactions and negotiations systems missing from the present common model.

This speculative conjecture about what we are missing is illustrated in Figure 4. We might, perhaps, hope to build genuine cultures as opposed to barely civilised communities if we can find the means and wills to reconstruct and incorporate these age-old transactions systems within a better common model. In short, if we don't encourage and cultivate charity and commitment as major parts of our transactions systems, how can we expect our common models to be sustainable, still less prosperous?

Figure 4. Conjecture II of Transaction Systems & Private vs. Social Interests<sup>17</sup>



**So, what are the implications?**

I am aware that I will have tried the patience of many, especially my more economical colleagues, with the argument so far. What is the point? The critical theoretical point is that our present economic conceptions of competition are woefully inadequate.<sup>18</sup> The correspondence between natural selection and competitive economic behaviour is well recognized in the joint development of ecological and economic models. Both stories explain how natural systems, which do not care, nevertheless contrive to be prudent by default - Adam Smith's invisible hand in a nutshell. Natural ecologies turn out to be highly efficient users of natural resources, displaying impressive cooperation, symbiosis, mutual interaction and constrained tolerance. Natural ecosystems specialize and trade (food and energy supplies) to a near unimaginable extent, colonizing and exploiting all available niches. How do they do that? By economising on purposive effort to best effect - by evolving towards and innovating better fits with a local environment which is partly their own making. In short, they practice economics without even thinking about it.

<sup>17</sup> Harvey, 2001b, provides an outline story that 'explains' why these particular transactions systems might be regarded as fundamental.

<sup>18</sup> See Makowski and Ostroy, 2001, for a more complete and more rigorous exploration of this assertion.

## What's the use of Economics?

Our economics remains, at heart, little more than survival and replication of the fittest, simply using more and (at least superficially) better tools. The rules are apparently social, but essentially animal – survival and growth (consumption) and replication (income and profit, providing the wherewithal to continue growing). Even the evolutionary strategies are the same – in conditions of uncertainty, breed as fast and prolifically as possible and take no care of the offspring (called R selection, which if you say it fast enough sounds exactly right); in more secure conditions, family care and limited reproduction makes more sense. Is it any wonder that our students and clients see this, at least subconsciously, and turn away from economics as a result?

But we can take the principles of evolution even further. We have arrived at our present “world common model” - the formula of liberal, free-trading market economies, coupled with universal suffrage and common law<sup>19</sup> - precisely through such intuitive processes of institutional trials, selection and competition. Have we, then, reached the end of history (Fukuyama, 1992, 1995)? Patently not, since evolution is a flow system, in which the end of history is the end of future as well.

This obvious conclusion may well explain at least a part of the problem with economics – the preoccupation with equilibrium. Most people well know, even if few articulate it, that the real world is not now and never will be in equilibrium. At best it can be thought of as being in the process of moving from a previous equilibrium it has never been at to a new one that it will never reach. How post-modern is that? The consequent stream of buts and conditions applied to economic projections seem inherently bound to raise the irritation gauges in most of our audience, especially when our conditional projections are stated with such certainty, not to say arrogance.

Furthermore, the typical benchmark of pure economic competition is not a natural climax condition of the world. Competition, specialisation and trade thrive on and self-generate diversity, not homogeneity. Trade and specialisation – the foundation of economics – cannot happen in a uniform and undifferentiated world. Selection, specialisation, trade and competition require differentiation. Level playing fields are not the point. The more differentiated and diversified become the products and the associated ideas, the more niches

---

<sup>19</sup> For those who need a more detailed outline of the common model, see *The Economist*, June 28<sup>th</sup> 2003, “A survey of capitalism and democracy”.

## What's the use of Economics?

are opened up for competition. The richer the ecology (and the economy), the more diverse are its species and the more niches it contains. Diversity is the climax condition.

Monopolistic competition is the climax condition of the economics of our common model. It is the product differentiation or quality dimensions that, in this story, enable elements of care and commitment to be incorporated within conventional contracts.<sup>20</sup> The supposed inefficiency of this market structure compared with perfect competition is merely the price we are willing to pay to be different – to realise our individuality, however pathetically. Perfect competition with homogenous products is nasty, brutish and short, as marketing experts and consumers well know, and producers (as well as policy makers and analysts) ignore at their peril. Conventional economics is quite simply too simple. We stand in considerable danger of generating equally simple minds if we do not emphasise the roles and natures of the seriously difficult and much more realistic tasks of management and marketing – in short, the inherent complexity and consequent indeterminacy of the real world. The rigour of economics results in *rigor mortis*.

Finally, in this brief outline of the nature of competition, both economic and game theories teach us that, given well-behaved games and rules, there is no real choice for rational actors - there is one optimum strategy. But human selection and competition is different: we think we get to choose. We, in contrast to our biological ancestors, make our own rules of survival, prosperity and selection. We select which games we choose to play - communism, feudalism, capitalism, or tribalism. Starvation is our choice, as Amartya Sen so cogently argues. We necessarily accumulate, exhibit and protect conscious social power - the ability to choose - unknown in the natural world. Neither natural selection nor so-called perfect markets admit internal command. Animal farms fail because animals cannot exercise social power sensibly, as George Orwell so vividly illustrated. Competitive markets are said to fail when power is concentrated and control is internalised. Animal farms can only work so long as any potential power is naturally dissipated and dispersed. But, then, the notion of a farm fails as well, since cultivation and domestication imply some control. This is the key and critical aspect of our free will - our collective control of, and thus responsibility for our own institutional selection

---

<sup>20</sup> The same point is made, in a different way, by Antle, 1999, who reminds us that there are critically important quality dimensions to both demand and supply functions. Notice that the implication of this is that the supposed inefficiency of monopolistic competition, as measured against its perfect competition counterpart, is the price we are willing to pay, or required to pay, for our differentiation. We should take more care that we are getting value for money (as the surrogate for effort and time)!



## What's the use of Economics?

criteria. For this control, we employ the missing elements of social transactions – the ones that contract (and hence most of conventional economics) necessarily leaves out.

Perhaps economics would be more attractive to our students and clients if we were to emphasise and focus of the genuine meaning of competition, rather than the arid and clinical abstractions we so often try and peddle to our paymasters.

So, how might this approach help? Three illustrations might help ground the framework.

### Three Examples

#### *The Food Chain*<sup>21</sup>

Kay (in *Foundations of Corporate Success*, 1993) argues persuasively that corporate success depends on the harnessing of the competitive advantage of products, as opposed to commodities, (that they be differentiated - rare, inimitable, un-substitutable - and valuable to the consumer) with the distinctive capabilities of the firm (or marketing chain) – in short, monopolistic competition. This is competitiveness – the ability to survive and replicate, to create added value. He identifies four key elements to distinctiveness. Only one of these (*strategic assets*) comes as no surprise to conventional economists.

Kay's other three distinctive capabilities echo the missing transactions: i) the network of relationships the firm has with its suppliers and customers, as well as the internal networks the firm uses to keep its parts and people working together and trusting each other (charity – the willingness to take the other's point of view) which together Kay calls *architecture*; ii) *reputation* of the firm or chain, which is clearly of vital importance in signalling to the customer the quality and reliability of products (and the commitment and care taken over their provision); iii) *innovative capacity*, the curiosity and conversion - which, as Kay points out, is frequently and strongly associated with architecture, since it involves continual and accurate transmission of final customer requirements back up and through the marketing chain. There is only space here to highlight two important implications of this richer framework of competition to the food chain.

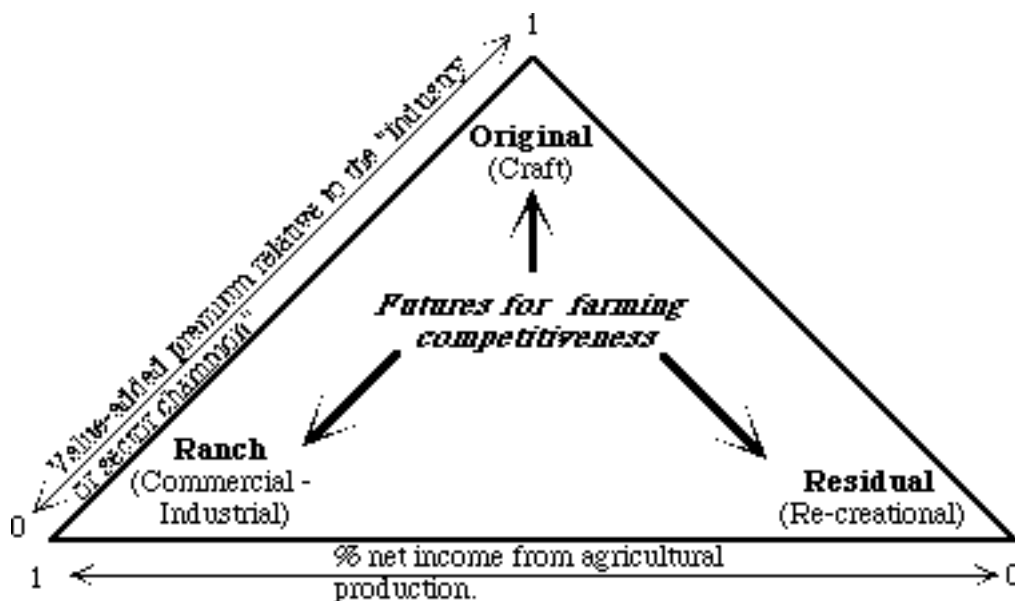
First, the key distinctive capability of farming is location, which cannot be duplicated or imitated by rivals in other parts of the country or world (echoing the importance of spatial

---

<sup>21</sup> See Harvey, 2001a. Slightly more detail on these thoughts can be found in *Northern Region Agriculture and Rural Development: what Futures?* at [http://www.staff.ncl.ac.uk/david.harvey/DRHRootFolder/DRH\\_research.html](http://www.staff.ncl.ac.uk/david.harvey/DRHRootFolder/DRH_research.html)

capital identified in Figure 1 above). Presently, location (and associated atomistic fragmentation) is frequently seen as being a commercial weakness of the farming system. This weakness can be turned to competitive advantage by being original, by developing the architecture of the marketing chains to deliver an enhanced reputation of the origin - the craftsmanship and socio-environmental care of the production and processing systems. Figure 5 illustrates the three strategic extremes outlined here for the future evolution of agriculture and, by implication, for land-based rural development.

**Figure 5: Diagrammatic representation of agriculture's strategic options**



In turn, this requires innovation and imagination in developing new information, promotion and marketing systems, with an emphasis on increasing consumer perceptions of the authenticity and originality of the product package (Kusnesof, *et al.* 1997). Any value to the consumer will reflect the contribution to the preservation and enhancement of original environments, and the care and attention to detail and quality throughout the marketing chain - the originality of the final product is a package of the whole chain. It is useless to look for the value of organic foods, or for GMOs (for instance) through conventional science – their value lies in their originality, and the signals they incorporate (or not) from the missing transaction systems.

Yet the development of a genuine original option for many rural areas is fragile. Most of the apparent trends within the agro-food sector appear to be antagonistic to personalised craft, personal trust and commercial relationships which are closer to family and community networks than to business practices of stock control, national distribution systems, Hazard

## What's the use of Economics?

Analysis and Critical Control Point (HACCP) protocols, and international sourcing strategies. In particular, the market power of the major supermarket chains seems certain to condemn original products to the status of up-market commodities - in direct price competition with internationally sourced brands and labels - rather than to encourage their marketing as a product/concept-bundle of authentic craft and production practices and community relationships, combined with a strong perceptual flavour and colour of the production location and culture.

But, as a second example, consider the apparent hegemony of the supermarket chains from this perspective. What, now, are the supermarkets distinctive capabilities? Not, anymore, their stores – there are too many of them, and they are all increasingly the same – Sainsbury's has become Sainsbury's. Their initial strategic assets are fast becoming liabilities, especially if and when electronic shopping and customised home delivery become major realities. Their distinctive product – one stop shopping – has now become the norm, a commodity rather than a product, with effective price elasticities of demand being close to perfectly elastic. While there is some security in shopping where everyone else does and buying what everyone else buys, the increasing differentiation in retail markets shows that as people become richer and more secure, so they seek to differentiate themselves from their crowds.

Growth areas of the business are likely to be the highly differentiated and specialised segments of the market. In the case of food, the specialisation includes very considerable elements of service and added-value. Higher class restaurant meals and home delivery of quality take-out meals could be seen as a local climax consumption point, as the modern counterpart to the personal household chef and kitchen staff of the 19th century aristocracy. The distinctiveness of these services, however, is that they are not replicated on every corner - each is different and personal. Supermarkets and chains, by their very nature, cannot possibly provide such personal and craftsman product/service mixes. A possible response is to introduce more regional and local variation (and hence more differentiated sourcing and procurement systems). Through franchising or sub-letting store space to independents, they might turn their supermarkets into genuine super markets, exploiting the real distinctive capabilities of the chains (logistical and inventory control, information processing and billing) as a common service to the stall owners and operators. Thus, the development of the in-store franchise could lead to greater differentiation of the product/service through more transparent and trustworthy competition within the store floor, and hence to new opportunities for the local farming sector and its originality. The development of farmers' markets within

## What's the use of Economics?

supermarket car parks, and the response of Marks and Spencer to their collapse in fortune (opening up their store and reputation to franchised independents) are current examples of these evolutionary developments.

### *The Rural Environment and Land Use*<sup>22</sup>

The key policy problems posed by public conservation, amenity, recreation and environmental (care) goods (McInerney, 1986) are:

- Markets for public care goods and externalities are incomplete (exhibiting only as opportunities to contribute to trusts), so people are not provided with natural opportunities to signal their willingness to pay. As a result, the signals (both incentives and penalties) to actual and potential suppliers are weak and confused.
- The care goods themselves are quintessentially differentiated and locationally individual, and subject to highly specific production systems. This fact makes specification of the activities to be pursued to ensure their provision equally specific, individual and differentiated. The necessary signalling and transactions systems are complex as a consequence.

Bureaucracies and typical government policy directives are not well suited to solving these problems. Design and implementation of environmental conservation, enhancement and countryside stewardship schemes proves difficult and typically expensive, while the outcomes are not always as expected (e.g. Whitby (ed.), 1994, Falconer & Whitby, 1999). On these grounds, continued (albeit re-directed and conditional) farm support may be argued (as by Hodge, 2000, and Vatn, 2002) as an acceptable second best solution. However, the fact that the social values of care goods are necessarily contested makes them subject to political failure – being either over or under-valued according to the political interests of the constituencies most affected. Given that political systems tend to favour the *status quo*, it is to be expected that there will be a political presumption in favour of high social valuations as justification for continued farm support. In addition, since the management prescriptions are also contested, frequent adjustment and modification of policies will be pressed for and implemented.

---

<sup>22</sup> A more complete account of these arguments can be found in Harvey, 2003, from which this section is taken

## What's the use of Economics?

Furthermore, estimates of these social valuations necessarily include non-market evaluations, for which people have no direct trading experience. It is well established that, unless people are asked to actually “put their money where their mouth is” when expressing preferences and rankings, their choices tend to be inconsistent, non transitive and irrational (e.g. Shogren, 2002). While it may well be a libertarian foundation that individuals are entitled to their irrational choices and preferences, it is hard to argue that they are also entitled to impose the consequences on those required to pay for these choices – the taxpayers. However professional and careful the estimates of social valuations of public goods, they will be contestable. If they become more important as the criterion for allocation and distribution of public support – as the multi-functional attributes of rural land management suggest they should – these valuations are likely to become even more contested.

Nevertheless, it does seem clear that private voluntary contributions towards the provision of care goods (via the market place) will necessarily under-value the social benefit of these goods, and lead to the under-provision of these goods. Many people will free-ride on the altruism and social conscience of the minority. Indeed, strictly self-interested economic analysis assumes we will all free-ride. Some public action and intervention is therefore justifiable.

A possible route to reconciling these difficulties is to make more use of the emerging conservation, amenity and recreation trusts (carts, as Dwyer & Hodge, 1996, term them). The voluntary contributions are an indication of the public willingness to pay for countryside and care goods, while their diversity is an indication of the differentiation of these goods. The activities of the trusts themselves are directed towards providing the care goods, either directly or through contracts negotiated with individual farm or land using businesses. Furthermore, it is possible to estimate the extent to which private voluntary contributions are likely to undervalue the public or social benefit of these goods, by comparing the existing private and voluntary provision with estimates of the general willingness to pay for these goods. In any event, it should not be beyond the wit of man to reach a judgement about this likely (justifiable) shortfall. Public policy could then be restricted to simply top-loading voluntary contributions by a given amount, as a grant-in-aid payment – making good the public good payment shortfall - and leaving the voluntary trusts with the responsibility of providing the care goods. In other words, public policy could simply encourage the further development of the private market (as represented by the trusts) for care good provision.

## What's the use of Economics?

Suppose that all those people who value a particular location and its associated environment had the opportunity to join and contribute to a local community/environmental trust, and were encouraged to do so through deducting their contributions from their tax bills. This trust would lever additional funds from the public purse, reflecting the difference between voluntary subscription and the full social value of the care provision, including the preservation of the community itself. The trust would be responsible for the local negotiation of contracts for and commitments to the care of the locality. Meanwhile, however, all previous direct and support payments to local farmers would cease, with appropriate lump sum compensation for any net decline in asset values and thus pension funds (as championed by Swinbank and Tangermann, 2001) to facilitate transition and adjustment (if for no other reason).

The signals provided by this approach seem more likely to properly reconcile the twin difficulties of valuing care goods and allowing for their differential and specific provision. As far as the consuming or benefiting public is concerned, not only are they required to actively signal their own willingness to pay in order to trigger provision of the goods, they are also encouraged to trade between the several trusts available, and also to promote their own new versions, if they consider the existing ones insufficient or inefficient. Furthermore, if the members become dissatisfied with the levels and types of care good provision being offered by the trusts, then their own active participation can be used as an effective remedy.

In other words, the trusts would be largely self-policing, through competition between themselves to provide what the public are prepared to pay for, in the amounts and qualities for which they are prepared to pay. The contests over both valuation and provision would become endogenous within the system, rather than as at present remaining exogenous or external to the system, relying on government as a benevolent dictator. Some ombudsman service would be required to act as arbiter for internal or inter-trust disputes which could not otherwise be settled. Trusts should also be licensed to operate as a trust, and thus receive public enhancement of contributed funds. In this way, the missing transactions systems of charity, care and commitment can be added to the market contract system, leading potentially to greater sustainability.

## What's the use of Economics?

### *International Agricultural Trade Negotiations and Relations*<sup>23</sup>

Agricultural policies (as mentioned above, p. 11) are the clear result of an atomistic sector, plagued by capricious if not actually malevolent markets, seeking refuge in government protection. It is possible to interpret this evident need to protect the declining sector (agriculture) during the development process as the effects of social charitable instincts finding expression through the only apparently available transactions channels in modern economies – convention and coercion. However, the well-known, if not yet widely understood mechanics of the interactions between the resulting contract (market) system and the interventions of government policy through coercion and convention clearly lead to the emergence of both new dependencies and new pressures for change – the classic recipe for evolution.

These pressures, too, exert themselves through the only available channels, at least at the international level – convention and (limited) coercion. Here the interplay is between nation states – the only organisms capable of negotiating international agreements outside of informal and partial cooperation reached through normal market contracts. How do nation state behave in these international negotiations? Largely as if they were selfish individuals, protecting their own interests and defending their own territories. Barrett (2003) explores the logic of this behaviour, specifically with respect to environmental agreements, though it clearly extends to trade negotiations, which are frequently characterised as mercantilist.

Any liberal outcome of the resulting negotiations depends upon there being a sufficient weight of national interest in favour of liberalisation. The context and circumstance of the Uruguay Round were such that it was clearly then in the interests of both the EU and the US, as the major players, to agree to some clear limits on the extent to which domestic policies could be allowed to influence world market conditions. Both were then plagued with apparently uncontrollable domestic spending largely because of the effects these policies were having on world markets – something had to be done, and was. Since then, however, both have substantially changed their domestic policies so as to largely insulate them from world market conditions. Their own selfish interests in further liberalisation have very substantially evaporated, strongly suggesting that further liberalisation will not happen (c.f. Harvey, 1998). Current progress, if that's the word, in the Doha Round seems to bear this out.

---

<sup>23</sup> Explored in more detail in Harvey, 2003a, with earlier analysis in Harvey, 1995.

## What's the use of Economics?

Meanwhile, the world has moved on. Consumers and citizens are clearly not entirely content with the power broking between states exhibited in the World Trade Organisation. They will continue to seek alternative expressions of their discontent, ranging from demonstrations and media campaigns to active consumer boycotts (finding strong support from their most dependable representatives – the supermarket chains – the European reaction to GMOs is the obvious example). Of course, people continue to depend on their governments to defend their interests, and can be expected to get upset if their governments seem to be failing them. Governments, in turn, can be expected to respond. Again, the current disputes over the legality of GM production in the UK (especially) are a rich ground for further exploring these interactions and responses.

But, notice what else is going on. Trade flows are regulated and governed by what consumers are willing to buy and what they are willing to pay. Trade negotiations and resulting rules – to, for instance, enforce open access regardless of differentiation on the basis of production process – are irrelevant if consumers decide that production process (and origin) is important. The super-markets will rule, regardless of the international lawyers, who will only get in the way, more likely to frustrate than to cultivate genuine development. Convention and coercion, with limited contract between nation states, cannot hope to meet constituent expectations and ambitions for sustainable governance of their food chains or their environments. Until the missing negotiations systems are better recognised, international negotiations and agreements will continue to resemble a re-arrangement of deck chairs.

### **So, in conclusion, what's the use of Economics?**

The point of economics is, as still told in the introductory texts, choice under scarcity, which is actually ecology by another name, prudent by default and not by design. It is still about making and living and having a life (microeconomics) and also about the basic income flows and transactions involved in the common model hegemony of contract, convention and coercion (macroeconomics) – though here we have to widen its scope to political economy. The words and perspectives outlined here may be slightly novel, but there is no argument here about the content or logic of economics. There is, however, a very strong complaint that, although necessary, economics as presently conceived is far from sufficient to cope with the science of human society. By the same token, neither are any of our sister social sciences sufficient. For a serious social science, then, we need an integration of our present disciplines – a way of getting them to trade and breed ideas, concepts, evidence and experiment. They



## What's the use of Economics?

need genetic (that is, conceptual) manipulation, by both conventional domestication and cultivation techniques as well as through more sophisticated implants and genetic (methodological) engineering.

This integration is even more essential for social science than for natural science. We can expect natural science to become more general (e.g. Deutsch, 1997). The more we know and understand about the way in which the bio-physical world works, the more general our understanding will become, since all we need is a consistent and coherent epistemology and ontology, which, for the most part, we already have.

But, for social science, we construct our own realities – in other words we choose our own human rules for selection and reproduction, progress and elevation. We choose our own morals and ethics. So we also need a coherent and consistent account of how we do this. It follows that rhetoric (e.g. McClosky, 1983) is a necessarily critical element in what we do. And none of us can afford to escape into the notions that these are far too difficult for us to do, so long as we wish to go on pretending that we are actually scientists. If we admit that it is too difficult, or, worse, claim that it is impossible, then we undermine our very reason for practicing as professional social scientists, and can only escape to the worlds of ephemeral and necessarily partial commentary and entertainment. Very few of us are going to be able to make a living doing either.

However, we can, (and I believe should) still practice economy: begin with a real problem; deconstruct it into its essential and fundamental elements by simplification and abstraction; reconstruct the elements to a coherent and consistent story; see if it works or fits with what we experience. If all else fails, redefine the problem. And do all this in the context of finite resources and practically infinite requirements. At root, what else is economy, apart from a more or less natural and essentially superficial flow and transformation of resources?

Furthermore, this method of reasoning has a long ancestry. In *Phaedrus*, Plato's Socrates describes two methods of reasoning in understanding rhetorical argument: "*The first method is to take a synoptic view of many scattered particulars and collect them under a single generic term, so as to form a definition in each case and make clear the exact nature of the subject one proposes to expound. ... (the second method is) the ability to divide a genus into species again, observing their natural articulation, not mangling any of the parts. ... I am a great lover of these methods of division and collection as instruments which enable me to speak and to think, and when I believe that I have found in anyone else the ability to discuss*

## What's the use of Economics?

*unity and plurality as they exist in the nature of things, I follow in his footsteps 'like the footsteps of god'. Hitherto I have given those who possess this ability the title of dialecticians, though heaven knows if I am right to do so."* This is a rather different and more general notion of the dialectic (or so-called Socratic method) than the one normally ascribed in the literature (which generally concentrates on the conflicts between theses and antitheses - seldom even worrying about the syntheses).

Finally, there is only one route to testing these ideas – to subject them to the critical appraisal of one's peers. There are no experiments we can run – since we are living in the experiments. There are no objective data on which we can rely, since we create our own data, and transform it as we do so. You may rightly complain that you have neither time, nor inclination nor incentive to pursue these pipe dreams with any seriousness. For the most part you will be right – our present intellectual and academic worlds can find little place for such effort. But, if someone does not, then we as social scientists run the substantial risk of following the dinosaurs into extinction – being unable to adapt and adjust to rapidly changing circumstances.

It is people like me, with no realistic possibilities of, nor ambitions for further professional progression, yet still with some time and some mental capacity, who can, at last, afford this pursuit. But we cannot do it properly without your help. Let's see if we can drop the "agri" from our disciplines and practice serious cultural economy. If you don't like this story, why not and what's yours? I look forward to hearing from you, and thank you for your attention so far.

## References

- Antle, J.M., 1999, "The New Economics of Agriculture", (Presidential Address), *American Journal of Agricultural Economics*, 81 (5), 993 – 1010.
- Ayres, R. U., 1998, "Eco-thermodynamics: economics and the second law", *Ecological Economics*, 26, 189 - 209.
- Banyard, P. and Hayes, N, 1994, *Psychology: Theory and Application*, Chapman and Hall, London.
- Barrett, S., 2003, *Environment and Statecraft: The Strategy of Environmental Treaty-Making*, Oxford University Press
- Bromley, D. W., 1997, "Rethinking markets", *American Journal of Agricultural Economics*, 79, 5, 1383 – 1393
- Boulding, K.E., 1973, *The Economy of Love and Fear: A preface to Grants Economics*, Wadsworth, Belmont, California.
- Commission on Social Sciences, 2003, *Great Expectations: The Social Sciences in Britain*, The Academy of Learned Societies for the Social Sciences, March, <http://www.the-academy.org.uk/>
- Costanza, R., 2001, Review of Ehrlich (2000), *Ecological Economics*, 37, 473 – 478
- Chambers, R, and Conway, G, 1992, "Sustainable Rural Livelihoods: Practical Concepts for the 21<sup>st</sup> century", *IDS Discussion Paper 296*, Brighton, Institute for Development Studies.
- de la Mothe, J and Paquet, G, (eds.) 1996, *Evolutionary Economics and the New International Political Economy*, Pinter, New York
- Dahrendorf, R. 1995, "Whither Social Sciences?" *6th ESRC Annual Lecture*, Economic and Social Research Council, Swindon, UK
- Department for International Development (DfID), 1999, *Sustainable Livelihoods Guidance Sheets*, available at <http://www.livelihoods.org/>
- Deutsch, D., 1997, *The Fabric of Reality*, Penguin
- Dryzek, J.S., 1997, *The Politics of the Earth: Environmental Discourses*, Oxford University Press.
- Dunn, J., 1999, *The Cunning of Unreason: Making Sense of Politics*, Harper Collins, London.
- Dwyer, J.C. and Hodge, I, (1996) *Countryside in Trust*, (Wiley, Chichester)
- Edwards, P (ed), 1967, *The Encyclopaedia of Philosophy*, Macmillan.
- Ehrlich, P. R., 2000, *Human Natures: Genes, Cultures, and the Human Prospect*, Island Press, Washington.
- Faber, M., Peterson, T and Schiller, J., 2002, "Homo oeconomicus and homo politicus in Ecological Economics." *Ecological Economics*, 40, 323 - 333.
- Falconer, K.; Whitby, M. (1999) The Invisible Costs of Scheme Implementation and Administration. In: Van Huylenbroeck, G.; Whitby, M. (eds): *Countryside Stewardship: Farmers, Policies and Markets.*, pp. 67-88 (Pergamon)
- Frank, R.H. 1988, *Passions within Reason - the Strategic Role of Emotions*, Norton.
- Fukuyama, F., 1992, *The end of history and the last man* , Hamish Hamilton, London
- Fukuyama, F, 1995, "The end of history, five years later", *History and Theory*, Vol. 34, No. 2, 27-43
- Giles, A. K., 2001, "The AES, 1926 – 2001: a view from the archives", *JAE*, 52, 1, 1 – 21.
- Gribbin, J., 1991, *In Search of Schrodinger's Cat*, Black Swan, 1991
- Gintis, H., 2000, "Beyond *Homo economicus*: evidence from experimental economics", Special Issue, *Ecological Economics*, 35, 311 - 322.
- Harvey, D. R., 1995, "European Union Cereals Policy : an Evolutionary Interpretation" *Australian Journal of Agricultural Economics*, 35 (3), 193 - 217

## What's the use of Economics?

- Harvey, D. R., 1998, "The US Farm Act: Fair or Foul?", *Food Policy*, **23** (2).
- Harvey, D. R., 2001a, "Whither Agriculture?", *Farm Management*, **10**, 12, 751 – 772.
- Harvey, D.R., 2001b, "Academic Rigour or Policy Relevance: Towards a reconciliation", *Tomorrow's Agriculture: Incentives, Institutions, Infrastructure and Innovations*, ed. Peters, G.H. & Pingali, P., Ashgate, 2001, p 565 – 582.
- Harvey, D. R. 2003a, "Policy Dependency and Reform: Economic gains versus political pains", contributed paper, IAAE 25<sup>th</sup>. Annual Conference, Durban, available at: <http://agecon.lib.umn.edu/cgi-bin/detailview.pl?paperid=10818>
- Harvey, D.R., 2003b, "Agri-environmental relationships and multi-functionality: some further considerations", *The World Economy*, **26** (5), May, 2003, 705 – 725
- Heap, S.H., Hollis, M., Lyons, B., Sugden, R. and Weale, A. 1992, *The Theory of Social Choice: a critical guide*, Blackwell, Oxford
- Hodge, I, (2000) 'Agri-environmental Relationships', *The World Economy*, 23, 2, February, 257 – 273
- Jackson, T., 2002, "Evolutionary psychology in ecological economics: consilience, consumption and contentment." *Ecological Economics*, 41, 289 – 303.
- Jager, W., Janssen, M.A., De Vries, H.M.J., De Greef, J. and Vlek, C.A.J., 2000, Behaviour in commons dilemmas: *Homo economicus* and *Home psychologicus* in an ecological-economic model." Special Issue, *Ecological Economics*, 35, 357 - 379.
- Janssen, M. A. and Jager, W, 2000, "Preface: The Human actor in ecological-economic models", Special Issue, *Ecological Economics*, 35, 307 – 310.
- Kay, J., 1993, *Foundations of Corporate Success*, Oxford University Press
- Keynes, J.M. 1931, *Essays in Persuasion*, Macmillan, London
- Kuznesof, S., Tregear, A. and Moxey, A., 1997, "Regional Foods: a Consumer Perspective." *British Food Journal*, 99 (6), 199 – 206
- McInerney, J.P. (1986) 'Agricultural Policy at the Crossroads' Gilg, A.W. (ed.), *Countryside Planning Yearbook, Volume 7*, 44 – 75 (Geo Books, London)
- Margolis, S., 1982; *Selfishness, Altruism and Rationality*, Cambridge University Press.
- Makowski, L. and Ostroy, J.M., 2001, "Perfect competition and the creativity of the market", *Journal of Economic Literature*, 39, 479 – 535.
- Manski, C. F., 2000, "Economic Analysis of Social Interactions", *Journal of Economic Perspectives*, 14 (3), 115 - 136
- Marx, K., 1887, *Capital: a critical analysis of capitalist production*, Swan Sonnenschein, Lowrey and Co., London. (1938, George Allen & Unwin, London)
- Marx, K. and Engles, F., 1847, *The Communist Manifesto*.
- McClosky, D. N., 1983, "The Rhetoric of Economics", *Journal of Economic Literature*, 21 (June), 481 - 517.
- Midmore, P., 1996, "Towards a Postmodern Agriculture", *Journal of Agricultural Economics*, 47 (1), 1 - 17.
- North, D.C., 1990, *Institutions, Institutional Change and Economic Performance*, Cambridge University Press. Cambridge.
- Nyborg, K., 2000, "Homo economicus and homo politicus: interpretation and aggregation of environmental values." *Journal of Economic Behaviour and Organisation*, 42, 305 – 322.
- Randall, A., 1993, "What practising agricultural economists really need to know about methodology", *American Journal of Agricultural Economics*, 75, October. 75th Anniversary Issue, 48 –59
- Rudd, M.A., 2000, "Long live and prosper: collective action, social capital and social vision", *Ecological Economics*, 34, 131 – 144.

## What's the use of Economics?

- Sagoff, M., 1988, *The Economy of the Earth. Philosophy, Law, and the Environment*, Cambridge University Press, Cambridge, UK
- Samuelson, P. 1947, *Foundations of Economic Analysis*, Harvard University Press, Cambridge, Mass.
- Scott, A, 1999, "Trust law, sustainability, and responsible action", *Ecological Economics*, 31, 139 – 154
- Shogren, J.F. (2002) 'Rational Choice and Environmental Policy', paper to the *Agricultural Economics Society Conference*, Aberystwyth, (forthcoming, *Journal of Agricultural Economics*) 88888
- Steers, R.M, Porter, L.W. and Bigley, G.A., 1996, *Motivation and Leadership at Work*, 6th edn. McGraw Hill
- Strange, S., 1994: *States and Markets*, 2nd. edition, Pinter.
- Swinbank, A. and Tangermann, S. (2001) 'The Future of Direct Payments under the CAP: A Proposal', *EuroChoices*, Premier Issue, Spring: 28-29,32-34.
- Tweeten, L. and Zulauf, C., 1999: "The challenge of Postmodernism to applied economics", *AJAE*, 81, 5, 1166 - 1172.
- Vatn, A. (2002), 'Multifunctional agriculture: some consequences for international trade regimes', *European Review of Agricultural Economics*, 29 (3), 309 – 327.
- Whitby, M. (ed.) (1994) *Incentives for Countryside Management*, (CAB International, Wallingford)
- Williamson, O. E., 2000, "The New Institutional Economics: Taking Stock and Looking Ahead", *Journal of Economic Literature*, 38 (September), 595 - 613