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A Better Economics for a Better World

Presentation by

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About the presentation

Whether by intention or accident, economic ideas and analysis often diminish society's expectations of what can be achieved. Such failings are not inherent to economics per se, rather they are the result of outdated economics dominating analysis and public discussion. The problematic nature of economic analysis must stop and make way for better theory and concepts to help us re-imagine what our economy and society could look like.

Dr Tim Thornton

Thanks for the opportunity to speak to all you today. Thanks also custodians of the Wurundjeri land. In the next 25 minutes I want to speak to you about the role political economy can play in creating a better world, including introducing seven big ideas in political economy that particularly pertain to the theme of this conference: change.

Let me start by calling out the fact that most people are intimidated by economics. Economic processes are often seen, and often presented, as being mysterious, highly technical and beyond the reach of the average person. Some parallels can be made with the regular segment on the comedy show *Little Britain* where one person goes to the counter of an organisation and asks whether some entirely reasonable thing is possible. The answer given is always the simple statement “[computer says no](#)” The questioner then accepts this mysteriously arrived at answer, albeit somewhat bemusedly.

Nobody should have to see economic processes in fatalistic, mysterious or mystical terms. As Cambridge University’s Ha Joon Chang [points out](#), 95% of economics can be understood by the average person and the remaining 5% can be also be understood, at least in its essential features, with just a little bit of guidance. The economy is a human-made construction subject to human comprehension, and human control. It is important for democracy that economic analysis is more widely understood and debated, not just left to a small section of society, one that is sometimes prone to engage in uncritical and insular group-think.

In saying all of this, I am not running down the role of expertise in general, nor of economic expertise in particular. To really *master* any area of knowledge is a life’s work and economics is certainly no exception to that. What I *am* saying is that it’s possible for people from all walks of life to

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engage with economic reasoning and conjectures in an intelligent and productive manner.

There are some good reasons to engage with economics. First, because economics is so often tied to values, ideologies and the material interests of particular groups in society. Few ideas influence life circumstances more than economic ideas and theories. Economics, in part because of its impact on people's lived existence and material interests, also exhibits a particularly high level of disagreement *between* experts. Indeed, as the post-Keynesian economist Joan Robinson argued, the main purpose of studying economics is not to acquire a set of certain and ready-made answers, but to avoid being deceived by other economists.

So, if the theme of this conference is “think big, change everything”, my suggestion is to for everybody to consider themselves as an *emerging* economist, and one who probably already knows more about economics, and can have more to say about economics, than they might currently realise.

When you look at something as complex as economies and societies, you can't simultaneously assess all the variables, nor all the causal linkages between them. So, you have to *decide* how you look, and how you decide to look will then heavily influence *what* you see, *why* you think it is occurring and what you think should be done in response. Every way of looking then, each intellectual framework is, to a greater or lesser degree a set of glasses that might illuminate some things clearly, but is likely to be less illuminating on others. Furthermore, it may distort our view of other things, or blinker our vision into something approaching tunnel vision. Given this, we should obviously pay the greatest attention to which pair of spectacles we are being asked to look at the world with. We should also think about which purposes and values shaped the construction of the lenses we are looking through, as values and purposes are necessarily involved in any economic or social analysis. Economics and social science

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cannot be objective, value-free or not shaped by the purposes which guide it. Don't let anyone, including any economist, convince you otherwise.

Let me now introduce two different frameworks for doing economics. There can be some overlap between these two broad frameworks, but a lot less than you might think. It is true, particularly in applied work, that frameworks can be combined, yet it ultimately valid and useful to think of a great divide in economic thought, so let us look at what lies on either side of this divide.

Standard economics is often taught and practised as a type of social physics. Indeed, it is sometimes taught and practised as a type of physics envy. This explains why so many students find economics difficult, boring and irrelevant or even just plain offensive. In no other discipline do students so regularly rebel at the content of their instruction. The focus in standard economics is on putting forward a particular explanation of the way that changes in prices and incomes prompt small (marginal) changes in the consumption and production of goods and services. Various simplifying assumptions are utilised and many non-quantitative variables are simply ignored in order to facilitate a largely mathematical mode of analysis.

This way of doing economics can be illuminating and useful. If economists are intellectual tradies, then this way of doing things is part of the toolbox of economics. However, like any tool, using it safely requires us to know its strengths and limitations and being upfront about that with ourselves and with others. One also always needs to think carefully about the appropriate domain of applicability of any particular tool, and also to consider whether other tools need to be used in conjunction with it. Of course, you need to have more than one tool in your tool kit. If the only tool you have is a hammer, you can tend to see nothing but nails.

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An alternative to the social physics approach is the political economy approach. It more fully recognises that economic activity always occurs within a social context and that other variables such as preferences, beliefs, rules, power, perceptions, history, uncertainty, ethics, and irreversibility are *central* in explaining economic processes. Of course, this broader and richer view of things can also include quantitative variables and analysis. The political economy approach to economic analysis is open to the full methods of the social sciences such as case studies, field work, comparative analysis, historical analysis etc, etc. This political economy approach is not only intellectually pluralist in its methods, it is also genuinely interdisciplinary and in genuine co-informing dialogue with other academic disciplines. You will notice how broadly I set the boundaries of political economy later in this presentation. This is exactly how it should be given an economy is always embedded within a particular political, historical, social and environmental context.

The political economy approach also embraces pluralism of theory. As the classical political economist John Stuart Mill noted long ago, if you don't understand rival arguments, you don't really understand your own argument. Accordingly, students, practitioners and policymakers always need to know something of both the political economy approach and the narrower traditional economic approach. Furthermore, they need to know about the various schools of thought *within* both political economy and economics, and also think through the fuzzy borderlines that sometimes exist between schools of thought.

The traditional social physics approach to economics, can make a contribution, and I draw upon it here and there later in this very presentation. However, it is the economics as a social science or 'political economy' approach that offers a more comprehensive and often more useful way of understanding and responding to contemporary challenges. Whilst some universities, such as Sydney University, offer dedicated programs in political economy, most Australian universities have been

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unable to recognise their responsibilities or identify the opportunities. This is why the [School of Political Economy \(SPE\)](#) was established in 2019, to offer tertiary-level instruction in political economy from outside the constraints and problems of the university system. SPE joins the list of the many other organisations such as the [Economics in Context Initiative](#) and [Rethinking Economics](#) that are working to achieve change in economics and economics education.

Having now made the case that economics is for everybody, and that a pluralist and interdisciplinary political economy often offers the most appropriate way to do economic analysis, let me now introduce seven big ideas from contemporary political economy. I have selected ideas that are relevant to change: the theme of this conference. To show how the ideas apply in practice, I will apply them to the issue of climate change, an issue that if not quickly fixed, will quickly and permanently break most everything that we value and need.

The general organising idea in standard economics is the concept of equilibrium, where there is a convergence towards an entirely static end-state, with that end-state pre-determined by the assumptions embedded in the analysis. This type of equilibrium framework is seldom relevant to real-world phenomena which are generally characterised as being very fluid and unstable. Real-world processes of change are more likely to be circular and cumulative, with change feeding back on itself, creating further change.

Let's look at history to back the claim I have just made. There are many example where our capacity to change social and economic systems, particularly in emergency situations, can be head-spinningly quick. For example, during times of war, societies and economies have in a few short years significantly reconstituted themselves. Production of certain goods and services is cut back dramatically, and other goods and services expanded rapidly. The state expands its role as a regulator and coordinator

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of activity. Private firms operate viably within the negotiated frameworks set for them; civil society also plays its part. This capacity to quickly change one's own economy and society is usually a pre-condition for success in any sustained war or crisis.

Of course, rapid economic and social transformation is not just confined to war and crises. Maria Mazzucato's latest book, [Mission Economy](#), shows how the public and private sectors collaborated on a massive scale during the space race of the 1960s. Mazzucato correctly calls for the same levels of ambition and experimentation to be applied to the biggest problems of our time. Again, let's specifically consider the climate challenge. What is most interesting about this challenge is that the solution is well within our grasp, technologically and economically speaking.

It has been [estimated](#) that we need to spend about 2.5 to 3 per cent of Gross Domestic Product (GDP) per year investing in renewable energy, transitioning to electricity, energy efficiency, and reforestation. This is obviously a small fraction of GDP and similar to what many countries spend annually on defence. Also, it should be understood as an *investment* that delivers a massive and multi-faceted social, economic and environmental return, rather than simply being a cost.

Technological progress in recent years has now resulted in renewable energy becoming cheaper than coal or gas, and new technologies such as advances in battery storage mean that a 100% renewable electricity grid is now possible. Indeed, the Federal Government's sometimes covert, sometimes overt and very expensive war on renewable energy is intensifying not because renewables can't replace coal and gas, but because they now can.

Given that the vast majority of Australians currently support the pursuit of an ambitious climate target, why are we regularly ranked with the world's worst, or as the world's worst, in international surveys on national climate

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responses? Why is it that we have a government that can, through its policies and actions, say to its citizens that we can't afford the future, yet still have prospects of being democratically voted into power? There is not a short and simple answer to these questions. However, political economy has something distinctive to contribute.

We might best understand our current public policy perversities in regards to the issue of climate change via recourse to what the institutional political economist James Galbraith calls a "[predator state](#)". In such circumstances, one narrowly based group in society takes what is on offer in a decaying system that once served broader interests. This predatory group may be opposed by others who also possess wealth, power and influence. However, a carefully constructed network built on political donations, ideological affinity and personal relationships produces an influence over the government that results in the interests of the predatory class prevailing over the interest of the majority.

In Australia, state predation mainly takes the form of predatory delay, whereby dying industries such as coal and gas eke out a last few years of existence, quite possibly killing any sort of future for humanity in the process. It is taxpayers and consumers who then pick up the tab for this. [The Australia Institute](#) estimates fossil fuel subsidies currently cost Australians a staggering \$10.3 billion per year, which effectively amount to roughly \$20,000 a minute being given to coal, oil and gas companies and major users of fossil fuels. Other nations are currently using taxpayers' funds to engage in nation building infrastructure. By contrast, we are using taxpayer funds to build nation destroying infrastructure.

What then is to be done? The situation, frustrating though it is, is also inherently fragile, given that in a democracy there is always the means to produce outcomes that reflect the general interest.

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The fact that there will be an election sometime in the next 12 months or so presents the opportunity for every electorate in the country to utilise the well-established community mobilising [techniques](#) so successfully implemented in seats like Waringah and Melbourne to replace major party representatives with independents or minor parties that are genuinely prepared to respond effectively to the climate challenge.

Furthermore, the social researcher Rebecca Huntley has produced [great work](#) on how to talk effectively to every section of Australian society about climate change, and how everybody might take action in support of their own future.

Of course, beyond electoral politics there are also a host of other actions and organisations that we can associate ourselves with to achieve political-economic change and so there is plenty of scope to act. State predation is capable of being reversed and negated.

Just because change can happen quickly, this does not necessarily mean that it will. As I have just discussed, predatory delay is currently an issue in Australia at the moment. What then to do? There is a lot of merit in getting the clearest intellectual and practical understanding of the different ways that change can happen. In other words, change studies, including case studies of change, can be enormously useful. The best introduction to change studies that I am aware of is [How Change Happens](#) by Oxfam's Duncan Green, which systematically look at how we can best think about change and pursue a power and systems approach to pursue it. I have put [links](#) to this free book on the SPE website, including a [short summary](#) of the book. The Ancient Oracle (i.e. Greta Thundberg) has quite reasonably asked us all do everything you can, with everybody you can, as often as you can. I think if we can combine Greta's great overriding instructions with Duncan's power and systems approach, it is a winning combination to achieve the required changes.

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The pursuit of self-interest in situations in a context of competition with other self-interested agents is a central idea in standard economics, and it's often presented as the primary engine of improved economic and social welfare. This idea is worth understanding and can be one of the many different ideas that can inform our thinking. However, giving such centrality to self-interest and competition is, in many circumstances, often overly simplistic, misleading and harmful. Indeed, there is now [solid evidence](#) that so heavily foisting this self-interest plus competition story onto students of economics damages their moral and ethical development.

What the anthropological and archaeological [evidence](#) actually shows is that humans are unique among animals in the extent to which we can cooperate in large numbers in order to advance projects for the common good. Look around and we can see that people are constantly making significant investments and sacrifices to uphold social norms and help others, including helping total strangers. These behaviours are the outcome of many thousands of years of genetic and cultural evolution. It is this propensity and capacity to cooperate, rather than just compete, that has been the key to our survival as a species. Cooperation remains as important to our survival as ever. Furthermore, most other species on earth are now depending on our cooperative, other-regarding and problem-solving propensities to prevail.

The degree to which we are cooperative and other-regarding can sometimes be quite sensitive to institutional context. Accordingly, economists really need to get to much better grips with cooperation. Indeed, there is a strong case for the ACCC (the Australian Competition and Consumer Commission) to expand its ambit and become the the Australian Competition, Consumer and Cooperation Commission. Similarly, the Productivity Commission would be more productive if they knew a little bit more about cooperation.

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A good place for anybody seeking to make a more cooperative world would be to look at David Sloan Wilson's website [ProSocial](#) which is focused on generalising Nobel Prize winning economist Elinor Ostrom's [work on social governance and polycentric governance](#) in order to promote the effectiveness of any group.

The economy is often presented to students as if it were a system of markets. This is a bad intellectual foundation on which to build because that economy is actually a system of *institutions*, by which I mean formal and informal rules. Rules are necessarily all about power. Which necessarily means the economy is a system of power.

Where do markets sit inside the argument I have just made? Well, markets are part of this economic system, but they are just one institution among many. Furthermore, the institution of the market sits inside other institutions and it is this larger system of rules that often *heavily* influences how markets play out in practice. For example, government regulations, labour standards, allocations of property rights, social norms and many other institutions profoundly affect market outcomes. This is why a conception of a market economy outside its institutional structure is like trying to study the movement of blood without reference to the body. Many of the struggles we have in making a better world are as much to do the institutions around markets as they are with markets themselves.

So, what is the take-out from this particular idea? Think about markets in a multi-stage manner. First, we have to determine whether or not markets even using a market to do a particular task makes sense. Second, we need to think about what institutions we want to nest markets inside. Third, we need to think about whether we can put those supporting institutions in place. Fourth, we have to consider how we can best adapt (or protect) the institutional structure we put in place in light of changing circumstances and shifting balances of power. This structured and sequential way of

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thinking about markets might improve how you interact with them and shape them.

Economic growth is usually measured by a metric called Gross Domestic Product (GDP) which measures the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. It is often used as the central benchmark of government's performance on matters economic.

Political economists, and also some orthodox economists, [argue](#) that it is well past time to get beyond a *heavy* reliance on such an astonishingly crude metric. Indeed, many debates between people who believe in green growth versus de-growth versus re-growth are conducted on the basis of GDP, and it often generates needlessly high levels of division and confusion in the here and now with the basic question: growth of what? Clearly, some things have to grow rapidly (for example renewable energy) and clearly other things need to contract or “degrow” such as fossil fuels. To talk, and debate, in terms of a general growth doesn't make sense. At least not at the moment.

There is a range of [alternative measures](#) of economic and social progress. No single measure is perfect, so a dashboard approach is required in order to get a better hold on how we are travelling. GDP can be one of the dials on this dashboard, but it is just one metric that needs to be interpreted in relation to other metrics.

Let me finish with one big idea in political economy that is particularly important: what we believe about societies and their economies are working parts of those economies. In particular, what we believe is possible often then sets the boundaries of what is possible.

A political economy view of the world and a good engagement with economic history prompts me to argue that the future is more wide open and fundamentally uncertain than most people think. There is a tendency

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simply to extrapolate the recent past into the future in a way that is not warranted and is a type of mental trap. We simply don't know what will happen, but we know we will have some individual and collective agency to shape what happens. What this suggests, at least to me, is that rather than being optimistic (which can easily engender complacency, inaction and delusion), or pessimistic (which can easily engender passivity, surrender and despair) we should instead be *opportunistic* (which is all about action, creativity, learning, utilising the opportunities that are there and then seeking to create other opportunities).

Economics is a discipline that, either wittingly or unwittingly, all too often diminishes people's sense of what is possible and limits their view of what pathways of change are viable. I hope I have provided a counterpoint to this by providing you with a conception of economics as a [contest of ideas, interests and ideologies](#), and by introducing the political economy approach to economic analysis. It's been a pleasure and privilege to be part of this wonderful conference and thank you for all the work you all do in making a better world.

ENDS

MORE INFORMATION

I have now completed the supporting resources that I mentioned in my address. It can be accessed [here](#) and this URL is available to anybody, anywhere.

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