



ECONOMICS

THE USER'S GUIDE



HA-JOON CHANG

BLOOMSBURY

AUTHOR OF

23 THINGS THEY DON'T TELL YOU ABOUT CAPITALISM

What is
economics?

What can – and
can't – it explain
about the world?

Why does it
matter?

Ha-Joon Chang teaches economics at Cambridge University, and writes a column for the *Guardian*. The *Observer* called his book *23 Things They Don't Tell You About Capitalism*, which was a no.1 bestseller, 'a witty and timely debunking of some of the biggest myths surrounding the global economy.' He won the Wassily Leontief Prize for advancing the frontiers of economic thought for his book *Kicking Away the Ladder*. He is a vocal critic of the failures of our current economic system.



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1

HA-JOON CHANG ECONOMICS: THE USER'S GUIDE



A PELICAN
INTRODUCTION

Economics: The User's Guide Ha-Joon Chang

Table of Contents

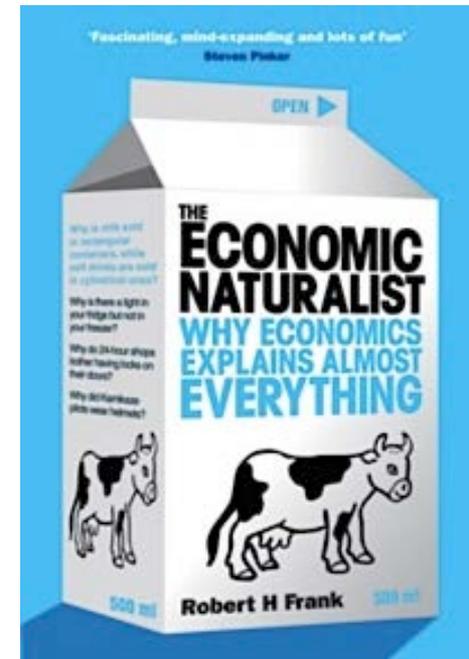
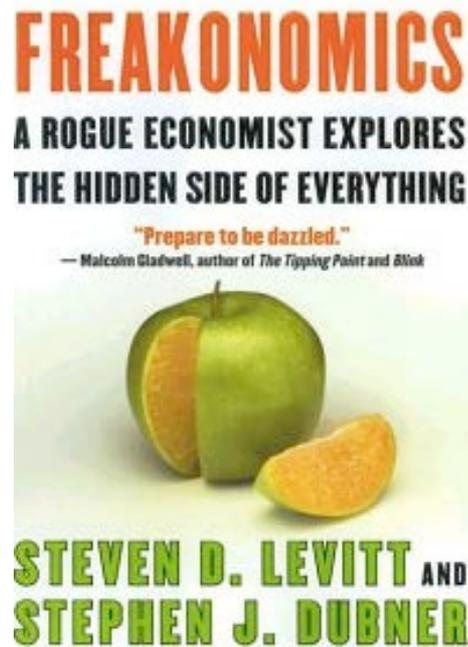
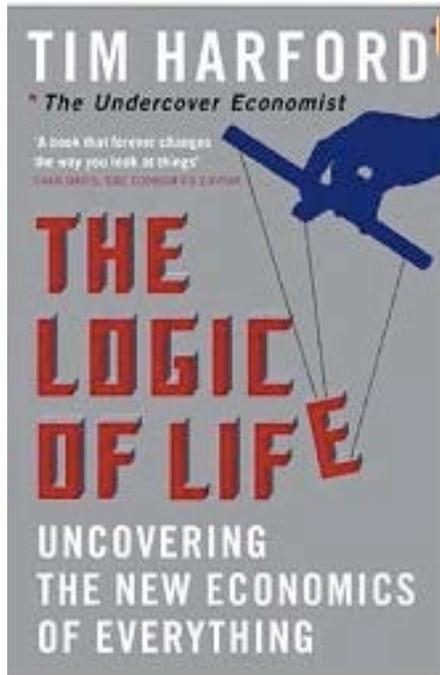
- **PROLOGUE.** Why Bother?: Why do you need to learn economics?
- **INTERLUDE I:** How to read this book
- **PART I.** Getting used to it
 - Chapter 1. Life, The Universe, and Everything: What is economics?
 - Chapter 2. From Pin to PIN: Capitalism 1776 and 2014
 - Chapter 3. How have we got here?: A brief history of capitalism
 - Chapter 4. Let a hundred flowers bloom: How to ‘do’ economics
 - Chapter 5. Dramatis Personae: Who are the economic actors?
- **INTERLUDE II:** Moving on ...
- **PART II.** Using it
 - Chapter 6. How many do you want it to be?: Output, income, and happiness
 - Chapter 7. How does your garden grow?: The world of production
 - Chapter 8. Trouble at the Fidelity Fiduciary Bank: Finance
 - Chapter 9. Boris’s goat should drop dead: Inequality and poverty
 - Chapter 10. I’ve known a few people who’ve worked: Work and unemployment
 - Chapter 11. Leviathan or the Philosopher King?: The role of the state
 - Chapter 12. ‘All things in prolific abundance’: The international dimension
- **EPILOGUE.** What now?: How can we use economics to make our economy better?

So, what is different about this book?

- Neglected topics:
 - What is economics?
 - History of capitalism
 - Different schools of economics
 - Production
 - Work
- Emphasis on ‘real life numbers’
 - But with due scepticism
 - “Everything factual is already a theory.”
(Johann Wolfgang von Goethe)

What is economics? I

- The ‘Science of Everything’?



The Economist

SEPTEMBER 2008 - 26TH 2008

www.economist.com

Who killed New Labour?

The war in Pakistan's tribal areas

America's unending culture wars

How to save fish

The last typewriter-repair man

What next?



What is economics? II

- The standard definition: Economics is “the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses” (Lionel Robbins, *An Essay on the Nature and Significance of Economic Science*. 1932)
 - So, there is only one way to do economics – that is, rational choice theory
- But, economics should be defined *not* in terms of its methodology, or theoretical approach, *but* in terms of its subject matter, that is, the economy (money, jobs, transfers, consumption, production).
 - If you follow this definition, there are many different ways of studying economics (biology vs. economics).

23
THINGS
THEY
DON'T
TELL
YOU
ABOUT
CAPITALISM

'Shocking ...
masterful'

OBSERVER



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Ha-Joon Chang



Many Different Schools of Economics

- At least nine major schools of economics
 - **Classical**
 - **Neoclassical**
 - Marxist
 - Keynesian
 - Schumpeterian (neo-Schumpeterian)
 - **Austrian**
 - Institutionalism (Old and New)
 - Behaviouralist
 - Developmentalist
- Several smaller schools
 - Neo-Ricardian, Latin American Structuralist, Evolutionary, Feminist, Ecological

Let a hundred flowers bloom – and cross-fertilise

- There isn't just one right way of doing economics but there are many schools of economics, each with its own strengths and weaknesses.
- No theory, in economics or elsewhere, can explain everything, so **we need to let a hundred flowers bloom.**
- Moreover, we should **have them cross-fertilise.**
 - Different approaches to economics can actually benefit a lot from learning from each other, making our understanding of the economic world richer.
- **Don't be a 'man (or a woman) with a hammer'**
 - Get a Swiss army knife! (and the sense to judge which one to use)

Cross-fertilisation I

- Some of the possibilities of cross-fertilisation are relatively obvious and some progress has already been made.
- The Developmentalists and the Schumpeterians: the former providing theories to understand the bigger context of technological innovation and the latter providing detailed theories of technological progress (e.g., Sanjaya Lall, Alice Amsden).

Cross-fertilisation II

- The Marxists, the Institutionalists, and the Behaviouralists: have long interacted with each other in relation to the theory of the firm (Simon and Coase writing in the shadow of Marx; Williamson-Marglin debate; works of Ugo Pagano).
- The common emphasis on psychological factors by the Keynesian and the Behaviouralist schools have recently produced notable cross-fertilisation of ideas in the new field of ‘behavioural finance’.

Cross-fertilisation III

- However, cross-fertilisation can be made between schools that we think – and, more importantly, most of the members of the schools think – are incompatible with each other.
- Despite their political differences, the Classics (right), the Keynesians (centre), and the Marxists (left) share a class-based view of the economy (e.g., Post-Keynesians).
- The Austrians may regard the Marxists as mortal enemies, but their views on the role of technological innovation and its role in market competition are more similar to that of the Marxists (and that of the Schumpeterians) than to the Neoclassical one (e.g., Chang on industrial policy).

Cross-fertilisation IV

- The Austrians and the Keynesians share with each other – as well as with the Behaviouralists and the Institutionalists – the view that the world is a very complex and uncertain place and our rationality to deal with it is severely limited (e.g., Knight).
- The Neoclassical theories of public goods and externalities have their (less clearly worked-out) Marxist versions (e.g., the Capital Logic School).
- The Austrians, the Institutionalists, and the Behaviouralists all share a view of human beings as layered entities, made up of instinct, habit, belief, and reason, even though some Austrians may think that most of the others are unforgivable left-wingers (e.g., New-Old Institutionalism of Hodgson and Chang).