70 Theses for an Economics Reformation

En 1517, le moine Luther placardait ses 95 thèses sur la porte de l'église de Wittenberg en Saxe. 500 ans plus tard, ce sont des dizaines d'économistes, réunis au sein du réseau Rethinking Econonomics Belgium, qui affichent leurs thèses dans la *lingua franca* du XXIème siècle, l'anglais, pour une réforme de l'économie contemporaine.

We propose these *Theses* as a challenge to the economic profession, at a time when the world faces poverty, inequality, ecological crisis and financial instability. These are examples – of current good practises, of current flaws of mainstream economics, of the insights that alternative perspectives have to offer, and of the ways in which a more pluralist approach can help economics to become both more effective and more democratic. This is an assertion that a better economics is possible, and an invitation to debate.

These theses are no final truths but a basis for a frank discussion.

THE PURPOSE OF THE ECONOMY

1. No economic goal can be separated from politics. Indicators of success represent political choices.
2. The distribution of wealth and income are fundamental to economic reality and should be so in economic theory.
3. Economics is rarely value-free and economists should be transparent about the value judgments they make.
4. This applies especially to those value judgments that may not be visible to the untrained eye, when hidden in technical assumptions.
5. Policy does not ‘level’ the playing field, but tilts it in a direction.
6. We need a more explicit discussion of what sort of economy we want, and how to get there.

THE NATURAL WORLD

7. Economy, as it emerges within societies, is fundamentally tied to nature. It does not exist as an independent entity.
8. Social institutions and ecological systems are therefore central, not external, to the economy’s functioning.
9. The economy cannot survive or thrive without inputs from the natural world, or without the many life-supporting systems that the natural world provides.
10. Economics must recognise that these inputs are not infinite and that their use alters the planet’s aggregate energy balances, creating consequences such as climatic upheaval.
11. Omitting these issues from main international trade or macro models has led to recommend a global economy that already operates well outside the viable thresholds of the ecological system that houses it.
12. Moreover, in most literature on environmental issues, the inclusion of strict ecological limits (in terms of carbon emissions, biodiversity…), already defended by natural scientists, is lacking.
13. The inclusion of such limits would imply that natural capital is only very limitedly substitutable by other forms of capital.

14. An essential economic dimension that should be constrained by natural limits is economic growth, as long that no absolute decoupling has been observed between economic growth and CO_2 emissions or raw material use.
15. The GDP growth objective should therefore be questioned.

INSTITUTIONS AND MARKETS

16. Humans derive preferences and value-orientations from the social context they are embedded in as well as from direct interactions with other people.
17. Preferences are hardly given, but shaped by markets and other institutions.
18. All markets are created and shaped by institutions such as laws, customs and culture. They are influenced by what governments do and by what they do not do. For instance, there exists a variety of capitalism (coordinated market economies, liberal market economies) with different sets of institutional arrangements.
19. Institutions shape markets and economic actors, and are shaped by them in return.
20. Some interactions between markets, institutions and behaviours are taken into account in the models, but most remain a blind spot.
21. Since different economies have different institutions, a policy that works well in one economy may work badly in another.
22. For this reason, among many others, it is unlikely to be helpful to propose a universally applicable set of economic policies based solely on abstract economic theory.

LABOUR AND CAPITAL

23. Wages, profits, and returns on assets can be shown to depend on a wide range of factors, including the relative power of workers, firms, and owners of assets – not merely on their relative contributions to production.
24. Economics needs a broader understanding of the evolution of these factors, which is not mainly based on technological change.

25. Historical arrangements and power conflicts should be more often included in the analysis, and not only under the form of market power.
26. Class struggles are one example of power conflict that should be taken into account.
27. More broadly, the extension of the capital share in the total revenue should be a central issue for economists.

THE NATURE OF DECISION-MAKING

28. Error, bias, pattern-recognition, learning, social interaction, and context are all important influences on behaviour that are too rarely recognised in economic theory.
29. Economics therefore needs a broader understanding of human behaviour, and can learn from sociology, psychology, philosophy, and other schools of thought.
30. People are not perfect, and ‘perfectly rational’ economic decision-making is not possible. Models based on this assumption may produce mistaken outcomes when applied to real world.
31. Any economic decisions that have something to do with the future involve a degree of unquantifiable uncertainty, and therefore require judgement.
32. Economic theory and practice must recognise the role of fundamental uncertainty and short-term expectations.
33. The baseline of markets which jump from equilibrium to equilibrium is thus not the most appropriate way to model the economy.
34. Even if some market imperfections are added to models, they are strongly optimistic regarding markets resilience, and let relatively little room for state intervention.

INEQUALITY

35. In a market economy, people with the same abilities, preferences and endowments do not tend to end up with the same level of wealth, subject only to some random variation.
36. The effects of small differences in luck or circumstances can drive vastly different outcomes for similar people.
37. Markets often show a tendency towards increasing inequality.

38. In turn, unequal societies fare worse across a range of social welfare indicators and even on economic growth.
39. Mainstream economic theory could do much better in understanding how and why this happens, and how it may be avoided.
40. The proposition that as a country gets richer, inequality must inevitably rise before it falls, is not proven. Any combination of GDP growth and inequality is a priori possible.

GDP GROWTH, INNOVATION AND DEBT

41. Growth of Gross Domestic Product is a political, as much as an economic, choice.
42. Correlation between GDP and main well-being or quality of life indicators in OECD countries is now widely contested.
43. Thus, GDP cannot be by default the metric of a well-functioning economy.
44. Given the high correlation between GDP growth and the growth of consumption of energy, economics must more often incorporate the latter in its reasoning.
45. Innovation is not external to the economy; it is an inherent part of economic activity.
46. Our understanding of GDP growth may be improved if we see innovation as occurring within a constantly evolving, disequilibrium ecosystem, shaped by the design of markets and by the interactions between all actors within them.
47. Innovation has both a rate and a direction.
48. A discussion of the ‘direction’ of innovation requires an understanding of ‘purpose’ in policy-making.
49. Private debt also profoundly influences the rate at which the economy grows.

MONEY, BANKS AND CRISES

50. The majority of new money circulating in the economy is created by commercial banks, every time they make a new loan.
51. The way in which money is created affects the distribution of wealth within society.
52. Consequently, the method of money creation should be understood to be a political issue, not merely a technical one.

53. Since banks create money and debt, they are important actors in the economy, and should be included within macroeconomic models.
54. The non-linearity of a monetary economy whose heart is a financial system is poorly tackled by current models.
55. Economics needs a better understanding of how instability and crises can be created internally within markets, rather than treating them as ‘shocks’ that affect the economy from the outside.
56. Financialisation has two dimensions: short-termist and speculative finance, and a financialised real economy. These two problems must be studied together.

THE TEACHING OF ECONOMICS

57. A good economics education must offer a plurality of theoretical approaches to its students.
58. This should include not only the history and philosophy of economic thought, but also a wide range of current perspectives – such as institutional, Austrian, Marxian, post-Keynesian, feminist, regulationist, and ecological economics.
59. Economics itself should not be a monopoly. Interdisciplinary courses are key to understanding the economic realities of financial crises, poverty, and climate change.
60. Politics, sociology, psychology, history and environmental sciences must thus be integrated into the curriculum, without being treated as inferior additions to existing economic theory.
61. Economics should not be taught as a value-neutral study of models and individuals.
62. Economists need to be well versed in ethics and politics, as well as being able to meaningfully engage with the public.
63. Markets, competition and agents should not be presented as “perfect” by default in the models thought.
64. Deviations from perfection should not be considered as defects, but acknowledged from the beginning as constitutive elements of reality.
65. An overwhelming focus on econometrics and quantitative models can leave economists blinded to other ways of thinking.
66. Teaching should dedicate a lot of time to the teaching of stylized facts, not only the teaching of theories and methods.
67. Students should be supported in exploring other methodological approaches, including qualitative research, fieldwork, historical and theoretical argumentation.
68. The choice of textbooks (especially for undergraduates) should take these concerns into account.

69. Above all, economics must do more to encourage critical thinking, and not mostly reward memorisation of theories and implementation of models.
70. Students must be encouraged to compare, contrast, and combine theories, and critically apply them to in-depth case studies of the real world.

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All your comments, suggestions or invitations to discuss with us are welcome. Please find us:

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