

The Economy: What's it for?

Keith Rankin, 7 September 2015

I re-watched the Q+A 'immigration debate' screened (parts [one](#) and [two](#)) by TVNZ on 23 August. In light of recent events, the discussion already seems very dated. The underlying assumptions – especially by the two macroeconomists on the panel – Don Brash and Shamubeel Eaqub – were that the economy is a system in which production growth is pretty much the sole objective, and that migration policy must serve this end of output maximisation.

Today we appreciate much better that migration is a humanitarian issue. It's about people seeking better lives. In an unequal global economy, labour will always find a way to migrate to capital if capital does not sufficiently migrate to labour, as [I noted last week](#).

In the first half of any first year economics course, students learn that the economy is a welfare system. And that is precisely what the economy is. The problem is that, the nature of economics subtly changes as these courses progress. By the end of a first-year course students see economies as production-oriented systems rather than as being welfare-oriented. Most economists continue to maintain that mutated perspective, conveniently putting to one side the 'unhappiness minimisation' assumption of their discipline. For these macroeconomists, economic growth becomes the single goal of economic activity; though this belief is often cloaked through the ambivalent word 'productivity' (which most economists use to mean economic growth per person). This is reinforced by *The Economist* magazine – from where politicians learn their economics – which evaluates all policy proposals against a growth criterion.

For non-economists – especially mainstream journalists – it's worse. They see the purpose of economic activity as being to 'make money'; a term even more ambivalent than 'productivity'. Making money – in the collective rather than individual sense of this layman's term – means economic growth; evermore production, evermore money being made.

A welfare system is a system that balances benefits against costs; happiness against unhappiness. (Sadly, it's hard to even discuss the economy as a welfare-system, because the word 'welfare' has been co-opted into a narrower meaning, that of 'social security'.) In the public mind, 'welfare economics' today has a quite different meaning from what it had in, say, the 1920s.

Under many (but not all) circumstances, increasing production – inasmuch as production adds to happiness – serves as a means to increase welfare. This is true especially in materially poor societies. But, even when more production can add to welfare, output growth is by no means the only component of increased welfare. Consumable output is not the only source of happiness, and the emphasis on economic output doesn't even begin to address the other side of the welfare equation, cost. Cost is about the use of inputs (such as labour, and the physical environment). Welfare is as much enhanced by the reduced use of inputs as it is by increased outputs.

Most economists know – in their heart of hearts – that economies are welfare systems. They however talk and act 'as if' they believed economies were production systems. This approach tends to serve their careers, but not the greater good. Economists, especially academic economists, come in many shades – and I'm not just talking about Marxists or anything like that.

A standard economics toolbox can be thought of as a rainbow; a rainbow with seven colours. But, later, in our careers, most of us (in our profession) only tend to see the blue, indigo and violet. We inform our analyses with a biased subset of the underlying conceptual tools of our discipline.

There is discontent about this within the profession, of course. Thus we do get groups of economists, and publications, which focus on 'well-being' and 'happiness' rather than 'output'. But it's a hard road for the profession to open up to those other colours – red, orange, yellow, green – in Pandora's economic toolbox. And it's a hard road for the mainstream media to frame an economic debate in any colour other than blue, indigo or violet.

In a welfare system, production growth represents an important means to improved welfare, especially in materially poor societies. Increased production is an economic means, not an end in itself. We work to live; we do not live to work. Migrants, like the rest of us, want to work to live. Life is the end, not the means; good life, not output, is the criterion of economic success. Production and work are mere means to that end, and by 'no means' the only means.
