Economics and the Economy

What is economics? Economics is the study of the economy. That just brings up another question, not so easily answered: what is the economy? At a fundamental level, the economy concerns how societies organize themselves to provide for their material well-being. This primarily concerns the decisions that have to be made regarding production and distribution.

While all societies must have an economy, the study of the economy primarily concerns the study of a capitalist, or market-oriented, economy, rather than a planned economy. In earlier traditional or command societies, markets either were not present or were subsidiary to other ways of organizing production and distribution. In traditional societies, the economy was embedded in what today would be perceived as cultural (or even ritual or religious) institutions. In command societies, the economy was embedded in political institutions, such as European feudalism or various forms of slave-based production systems. Only with the development of capitalism did the economy become “disembedded.”

The rise of market-oriented economies introduced a specifically economic institution that determined production and distribution. With the onset of capitalism, questions were asked concerning the operation of market systems and the forces that might regulate such a system. Market systems are not perfect — there are booms and crashes, recessions and depressions, inflation and deflation, unemployment and financial crises — but neither are they completely random. Even economists who emphasized the problems with capitalism, such as Marx and Keynes, still viewed markets as self-regulating, ruled by some basic tendencies (or laws). There are different theories regarding these tendencies, including mercantilist, classical, neoclassical (or marginalist), Marxian, Keynesian, and institutionalist schools of economic thought, each with various subschools. But what these views all share is the idea that some regularities and reliable behaviors can be identified that give insight into the way the market works.

The philosopher Adam Smith, who was also one of the great classical political economists, wrote in his History of Astronomy that human beings feel a kind of anxiety from the unexpected and unfamiliar, and contentment from the familiar. So, we try to classify and categorize the world in order to make sense of it all. This, Smith says, is the purpose of philosophy, the purpose of theorizing: to find the orderliness in the hubbub. This is all the more necessary and difficult because the object of study in this case — the capitalist economy — is not static, but dynamic, meaning that the rules that governed its operation at one period of time may no longer be active, and other regularities may have taken over. Therefore, any economic theory has to be considered within its historical context.

In addition, any explanation of capitalism's inner logic also affects public policy, which in turn affects our lives. Another British economist, G. L. S. Shackle, went so far as to say that whereas "in natural science, what is thought is built upon what is seen, in economics what is seen is built upon what is thought." How we interpret the economic activities that we observe in society, how we literally see them, is virtually determined by what others have thought (and written) about them — to a much greater extent than we might realize.