



HAL
open science

An essay on the need to redefine economics for the sake of a human economy

Arjo Klamer

► **To cite this version:**

Arjo Klamer. An essay on the need to redefine economics for the sake of a human economy. Journal of Philosophical Economics, In press, 16, pp.162 - 181. 10.46298/jpe.10887 . hal-03914427v2

HAL Id: hal-03914427

<https://hal.science/hal-03914427v2>

Submitted on 10 Oct 2023

HAL is a multi-disciplinary open access archive for the deposit and dissemination of scientific research documents, whether they are published or not. The documents may come from teaching and research institutions in France or abroad, or from public or private research centers.

L'archive ouverte pluridisciplinaire **HAL**, est destinée au dépôt et à la diffusion de documents scientifiques de niveau recherche, publiés ou non, émanant des établissements d'enseignement et de recherche français ou étrangers, des laboratoires publics ou privés.

**THE JOURNAL OF PHILOSOPHICAL ECONOMICS:
REFLECTIONS ON ECONOMIC AND SOCIAL ISSUES**

Volume XVI Annual issue 2023

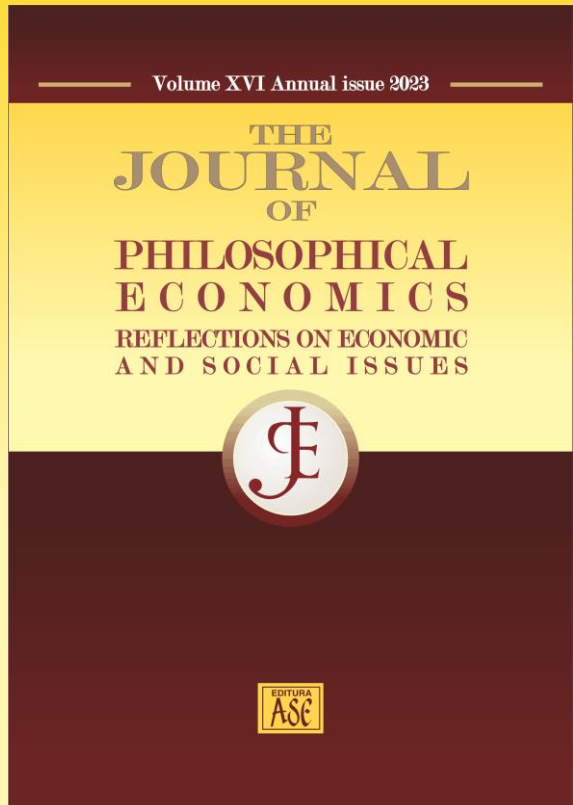
ISSN: 1844-8208

ISSN (print): 1843-2298

Paper format: 16.5x23.5 cm

Copyright note:

Authors retain unrestricted
copyright and all publishing
rights in compliance with
the Creative Commons license
CC BY-NC-SA.



**An essay on the need to redefine economics
for the sake of a human economy**

Arjo Klammer



An essay on the need to redefine economics for the sake of a human economy

Arjo Klamer

Abstract: More than 90 years after Lionel Robbins more or less defined the subject of economics in his famous essay, it is time to redress the issue in light of recent developments and new insights. Robbins used the figure of Robinson Crusoe to define homo economicus as an agent that makes choices in conditions of scarcity. By re-reading and re-interpreting the story of Crusoe, we make more sense of the narrative when we envisage people engaged in practices by which they realize what is important to them, that is, their values. Homo economicus becomes a special case pertinent to the instrumental economies of markets and organizations. In the so-called human economies of the home, the social, cultural, and natural world, people use the inputs that they acquire in the instrumental economies to realize what is important to them, such as families, friendships, science, art, religion, meanings. This shift in perspective will have far reaching consequence for the way economists think and theorize and enables them to connect with the value-based approach that is increasingly dominating the worlds of business and politics.

Keywords: definition of economics, human economy, values.

Introduction

When confronted with a discussion on values, the good life, the right things to do, the moral problems of flying and meat consumption, and other such subjects, economists are inclined to respond with the remark ‘That is not economics.’ They usually have several reasons for saying such. One is that the argument does not come in the form of a model. That is the methodological point: it weighs heavily in the academic mindset. Another is that the discussion does not meet the definition of economics as the science that studies choice in conditions of scarcity. Or they will evoke the distinction between normative and positive economics, and because they see a discussion on values as a normative one, it is not the business of positive economics which they practice. End of discussion.

Can economists sustain this defence? I doubt it. The pressure is on. Lots is happening under the umbrella of economics inside and outside the academic domain. Within academia economists are practicing alternative approaches next to the standard approach. Although still operating in the margins, Austrians, Post-Keynesians, institutional economists, feminist economists, and Marxists have proven to be able to sustain their practices. More challenging are possibly the alternatives that are underway outside the confines of academia. In thinktanks, political parties, reading groups, religious and spiritual communities, companies, governments, schools, cafes and kitchens people are discussing other economies (Castell 2017), the Donut economy (Raworth 2017), the economics of arrival (Trebeck and Williams 2019), Buddhist economies (Clair Brown, the Schumacher society), a thriving economy (Klomp and Oosterwaal 2021), a no-growth economy (Jackson 2009), circular economies, human economy or humanomics (McCloskey 2000, Smith and Wilson 2019, Klamer 2017). While getting strong response 'out there', however, they get virtually no recognition in the regular academic settings. People in the business community want to discuss values, purpose, qualities of their practices but they, too, find general economists generally unresponsive.

Barricading the ivory tower to keep the 'barbarians' away from the gate has been quite an effective strategy thus far. Yet, the difficulty of attracting students to the study of general economics and get them to pursue an academic career combined with a widespread scepticism towards the current practice of economics should give some pause to think.

Therefore, let's see whether we can open the gates and broaden the scope of economics to include topics that are currently of interest. Let's see whether we go beyond the dominant practice of economics in academia, with its emphasis on scarcity, individual rational choice, incentives, efficiency, economic growth, modelling, and positive economics. Let us imagine a multitude of economies, each with its own logic. And let us consider alternative economic perspectives and approaches.

To get my colleagues who resist even considering this move, let me offer one reason to persuade them and to acknowledge that economists at times need to understand social and cultural factors and processes in addition to the financial ones to remain effective. Take the policy proposal that we economists gladly

provide to deal with the climate crisis to internalize external costs and raise the prices of, for example CO₂ emission. Clear enough. Quite straightforward. Plenty of models that support the measure. It is the rational thing to do. Yet, it does not happen. Politicians simply are not doing it. I have set in sessions in which fellow economists exploded in frustration. They have been pleading this solution for decades and nothing happens. I then gently ask why that would be the case. ‘These politicians are just stupid,’ is the standard response. A more sophisticated response is that politicians fear losing the next selection when they listen to us. The question is then why voters do not recognize the effectiveness of what we propose. Might other factors be at work? Social factors maybe? Distributional issues? Or do people resist the sense making in terms of markets, as economists are used to do? Are the utilitarian calculations that economists automatically make to motivate their solutions so self-evident? Is it conceivable that non-economists have a different way of making sense? They may have a Kantian sense of duty, or an Aristotelian sense of the greater good. Whatever, economists need to take notice to make sense of what happens. If they need to consult other social scientists, philosophers, historians, or psychologists for the answer, so be it. That fits the trend to pursue multidisciplinary research. Does it turn out that social or cultural factors are decisive, then economists need to take them into account (as they increasingly are inclined doing so, see Klamer 2019 for a survey).

The objective here is to redefine the scope of economics to include phenomena that are important to people, make up a great deal of their life, their actions, are costly and valuable and that help to make sense of what is going on.

Let me make clear at the outset where I want to take the discussion. The economy as I envisage it is a combination of a human economy and an instrumental economy. The human economy consists of a great variety of practices that enable people to do their things to bring about a good life and a good society. These practices constitute the core, or the base of human lives. They revolve around relationships and values and enable people to realize families, communities, religions, and other practices that are important to them. The human economy has been dominant in human lives and communities throughout the ages (see Graeber and Wengrow 2022). People collaborated, shared the fruits of their labour, took care of each other, and fought at times, without monetary transactions and without formal organizations. People continue doing so in their

families, among friends and colleagues, and in all kinds of communities, including the scientific community that you and I are part of. Only recently an instrumental economy came about, that is, the economy in which markets and organizations operate. The science of economics has been focusing on that economy. By recasting economics, we can get the human economy back into the picture. But to make sense of that economy, we are in need of another approach; at my suggestion that could be a value-based approach (Klamer 2017). It will become clear that many critiques of and alternative approaches to standard economics are in one way or another the expression of the need to recognize the human economy.

I comprehend full well that this framing of economics and the economy is confusing, at first. The subsequent discussion should motivate and support the proposal.

To this end, I revisit the famous essay of Lionel Robbins, *Essay on the Nature and Significance of Economic Science* (1932), that laid the basis for economics as currently defined.

Economics as defined by Lionel Robbins

The object of this essay is to exhibit the nature and significance of Economic Science. Its first task is to de-limit the subject-matter of Economics – to provide a working definition of what Economics is about. (Robbins 1932, p.1)

Robbins, who was an authority at his time and connected with the London School of Economics, tries to delineate the subject in accordance with what is current practice at the time. He dismisses the definition of economics as the science that studies the cause of material welfare. The definition is apparently pernicious because of the association of ‘economic’ with ‘material’. Robbins points out that people spend their income on non-material things, too, like theatre and music. Nowadays that point is obvious, as we all recognize that a major part of the economy consists of non-material products like services and non-tangible public goods. Non-economists readily get the point as well.

But Robbins also dismisses the equation ‘economic is financial, monetary or pecuniary.’ It is the definition that dictionaries give (like the Cambridge Dictionary). The suggestion is that ‘economic’ solutions are ‘financial’. And indeed, when economists propose solutions to problems, they usually propose changing prices (in case of pollution or traffic jams), more government spending (in case of a recession) or raising taxes for the rich (in case of inequality). Robbins insists that non-financial activities can be economic, too (for example, when we need to allocate limited time between mowing the lawn, taking care of our kids and grading essays). Economists easily get the point. Non-economists may scratch their head.

Robbins motivates these two points with the story of Robinson Crusoe (that he copies from his colleague Edwin Cannan). Can we detect an economy when a man is cast away on an island and must try to stay alive? As Defoe tells the story, Robinson Crusoe leaves the money on the shipwreck as he has no use for it on the island, but he does take all the tools and food he can gather. Once on the island he begins to prepare a piece of land for cultivation and plants seeds to harvest the vegetables later. Robbins makes us wonder what the situation of Crusoe has in common with other economic situations. Cannan suggests that the term ‘economic’ is reserved for the material activities of Crusoe, like planting, and digging for potatoes. Talking to his parrot would then not be economic. But, so retorts Robbins, Crusoe must decide how to divide his time, how much time he will spend tending his garden and how much time he wants to be talking to the parrot. ‘Therefore he has to choose. He has to economize’ Robbins notes (p. 12).

And there he reaches his defining conclusion:

From the point of the economist, the conditions of human existence exhibit three fundamental characteristics. The ends are various. The time and means for achieving these ends are at once limited and capable of alternative application. [...] when time and the means for achieving ends are limited and capable of alternative application, then behaviour necessarily assumes the form of choice. [...] Scarcity of means to satisfy given ends is an almost ubiquitous condition of human condition. (idem)

It follows that

Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses. (idem)

He refers to Carl Menger and Ludwig Von Mises for support.

It seems so logical. Why question it? The definition is standard fare in economic textbooks. I learned it from Paul Samuelson who developed the standard format for teaching economics, including this definition. It motivates the theory of choice that students get in the micro part, including preferences (the variety of ends) and the budget curve (the limited means capable for alternative application). Like all economic teachers, I have taught numerous freshmen as if there is no alternative.

However, logical the reasoning of Robbins is not. He intervenes in what is a complexity of phenomena, and provides a perspective, a logic that opens the gates to a wide variety of theoretical and empirical exercises but closes them for phenomena that aforementioned economists want to address, like values, virtues, culture, circularity, nature, common practices. The perspective with which he defines economics is laden with values. For one, it defines an instrumentalist world view that blocks the consideration of what is important to people with the assertion that exploration of the ends is beyond the scope of economics. But why would that be the case? Because Robbins says so? Or John Neville Keynes before him? It is not what Adam Smith would claim, or John Maynard Keynes. And they are economists, too, aren't they?

Notice that Robbins tries to establish a priori principles to suggest that conditions of scarcity and the choice that they necessitate are true just like the phenomena of time and space are true. 'I think therefore I am'. Descartes claimed it as an axiom. As Descartes asserted, the reasoning follows by way of deduction, in a logical manner. And so does the maxim of Robbins: 'The means are limited and therefore I must choose.' Any economist knows perfectly well how it goes: formulate a utility function to indicate various ends and identify the means in a budget constraint and opportunity costs, differentiate between investment and consumption expenditures and do the same for producers but then with a profit maximization set-up. It is all so logical. But is it?

The claim is that this way of proceeding is positive economics; it refers to the way things are and not how they should be. It is supposed to be value free. But is it?

Rousseau responded to the maxim of Descartes with his own: 'I feel therefore I am,' to set in motion an entirely different reasoning. If we recognize that humans have feelings, we can push further and question the a priori character of scarcity as a condition of human life. What if humans meet conditions of abundance as well? What if we would perceive cases in which consuming something adds value to the thing? That would make a difference and upsets the a priori character of Robbins' definition. Indeed, why would we economists only value conditions of scarcity as subjects for our science and not the conditions of abundance? After all, people can have too many financial resources instead of too few. What to do if the sale of your company adds a billion dollar to your bank account?

Other values are expressed in Robbins' characterization of the economic situation. As the practice of standard economists demonstrates, the set-up of Robbins introduces a bias towards the individual: the tendency is to value individual choice over, say, what people do together with others. It renders a phenomenon like altruism hard to explain. Whereas altruistic behaviour is the norm in the human economy.

Admittedly, economists are not to be blamed that people out there associate economics with self-interest and greed. But if their maxim does not encourage them to think of people as social beings, and rather get them to talk mainly about incentives, elasticities, opportunity costs, profit maximization, and such, economists should not be too surprised that those (negative) values are attributed to their science.

The same could be said for the conceptualization of the economy as consisting of a bunch of markets, and the notion of efficiency. Although not asserted as such by Robbins, Paul Samuelson quickly moves from the basic tenets of individual rational choice to the workings of the markets, presenting the logic of exchange as the primary and most efficient way in which people can maximize their utility and profit. The move is swift with the pretence that it logically follows. But does it? If we were to assert that people meet their needs (maximize their utility) first in their oikos, their home, young students will follow readily. For all they know,

they received food, lodging, transport, vacations simply by being part of a household. They did not pay for them. That there are also markets out there, they only just discovered.

If Robbins did not foresee the forays that economists could make into the household, Gary Becker has done it for them. By casting the household as a bunch of individuals seeking to maximize their utility, he showed that the maxim of Robbins applies to that context as well. Becker claimed this as the economic approach, thereby encouraging economists to tackle any subject that meets the condition of scarcity. But do they do justice with such reasoning to the logic of the human economy in general and the economy of the home in particular?

With his claim that economists should focus on the means, and not the ends (as they are varied, subjective and normative), Robbins set the stage for what has become a dominant instrumentalist approach. While John Maynard Keynes at the time still claimed that economics is a moral science, in the spirit of Adam Smith, Aristotle and Victorian economists like John Ruskin, the trend was clearly towards the instrumentalist approach of Robbins. Engineers and mathematicians stepped in. The Dutch Nobel prize winning economists Jan Tinbergen and Tjalling Koopmans, for example, envisaged the economy as a machine and saw it as their task to identify the knobs that politicians could turn to achieve their desired ends. Their language is very much like that of Robbins, although they do not take to his a-priori reasoning and, therefore, are less religious in pursuing a rational choice set up. It is from economists like them, that economists consider policy making the sole end of their scientific efforts. They therefore feel compelled to articulate the policy consequences for whatever model they develop.

Note the normative implication of this set up. Economists shall approach their science to deal with conditions of scarcity and they shall do so in an instrumental way, to enable politicians to make rational choices. If not, they forfeit the right to call themselves economists.

My questioning does not concern the validity of this work. Comparing costs and benefits, determining the effects of a rise in interest rates on employment, and the impact of a price ceiling on the efficiency of markets, and so on are relevant and remain relevant for making sense of the instrumental economy. Conditions

of scarcity do compel us to make choices. Robinson Crusoe had to weigh between consuming now or investing for future consumption. Opportunity costs matter. And so does the difference between a stock and a flow. I could go on. No need to bash all these efforts, as so many critics tend to do. The point that I want to make is that economics and economic as defined by Robbins is unnecessarily confining preventing economists to perceive and study phenomena that are most relevant to most people. Like what makes a good home. Or what to do to restore a harmonious relationship with nature.

I realize that such questions and issues do not make sense to quite a few economists. They do for people outside academia, though. And they might make more sense as soon as we have succeeded expanding the scope of economics.

To do just that, let us return to the story of Robinson Crusoe.

What does the story of Robinson Crusoe tell us about the human economy?

Of course, Robinson Crusoe had to make choices. But they are not just the choices that Robbins focuses on, and later Samuelson presents freshmen as the basic economic choices. They do not tell that Crusoe chooses to leave the money on the shipwreck and that he did take the bible along with foodstuff and tools. Leaving the money makes sense as there are no markets on the island and no people to exchange with. Why taking the bible? His choice to do just that betrays the theme of the story. What Crusoe values is the relationship with his earthly father as well as God. He is searching for both. That makes the bible so important to him; it enables him to develop and practice his faith, by reading it and reflecting on its message. Crusoe does not only need to divide his time between tending his garden and talking to his parrot, as Robbins notes, but also needs time to read the bible.

The companionship of Friday whom Crusoe rescued from being the meal of cannibals, stimulates Robbins to apply his maxim and investigate how having another person affects the conditions of scarcity and how that changes the choices that Crusoe makes. The notion of comparative advantage immediately comes to the economist's mind.

Yet, just like the bible, the phenomenon companionship could mean something entirely different. Crusoe might care for having the companionship and for the emotional connection that he makes with Friday. It could make him feel human again, less lonely for sure. The companionship enables him to share feelings and experiences, to have someone else respond to his actions, to get appreciated and to appreciate, and to quarrel so now and then. Companionship is a value. Practicing it is a good. It is what people do in the human economy.

The economic framing that Robbins set up may have given cause to consider a good like companionship or friendship. Remember, Crusoe had to divide his time, and with Friday in the mix he now must decide how much time to spend with Friday. The condition of scarcity applies. And seeking friendship is an end that people are seeking. Why then exclude friendship (and with that so many other goods as we will see in a moment)? They are valuable providing all kinds of benefits and resist possession just like private goods such as ice-cream, computers, and haircuts.

The reason is not clear, at least not if we follow the logic that Robbins set into motion with his maxim. The condition of scarcity applies, and Crusoe must make choices.

I do not come across many instances that the choice to ban goods like faith and friendship from the economic discussion gets motivated or questioned. Menger is the exception. In *Principles of Economics* (1871), he brings up the subject and then decides that friendship does not lend itself for market transactions, to the logic of exchange, that is, and therefore falls outside the domain of economics. But that does not make sense in the terms that Robbins stated as he made explicit that the applicability of the logic of exchange does not determine whether a good is economic or not. That is the point of the Crusoe story. Pigou and other economists would follow suit by claiming that there are goods that are non-marketable yet economic. They meant public goods, of course. Public goods are costly to realize and provide all kinds of benefits, but they cannot be exchanged because of the conditions of non-rivalry and non-exclusion. Freshmen get this hammered in.

Follow the logic and friendship should count, too, as every freshman will readily recognize. After all, their life is more about making friends than about buying

vegetables, trading in markets, or investing in their future. But no, economists leave that out of the discussion, with the argument that the phenomenon of friendship is non-economic. ('Take a class in sociology or psychology if you want to know more about it'). That does not make sense.

Apparently, the condition of scarcity gets mixed with the logic of exchange as the defining characteristics of economics. If not, it would be hard to make sense of the vocabulary that economists use. It makes freshmen who take their class see the world as a bunch of markets, with transactions anywhere they look. That is not what Robbins makes his readers see, but that is what happens anyway. Just consider what economists consider externalities to be: they are economic phenomena that are not internalized, that is, not priced, not subject to the logic of exchange. They get internalized by incorporating them in the system of exchange. That would make friendship an externality; it would become economic if it is priced somehow. (For that is what we do with public goods when we want to incorporate them in the economic accounts.) But we can also internalize friendship as a good that gets 'produced' in the human economy.

Or take the notion of consumption. In the vocabulary of economists, so freshmen learn, consumption is what individuals or households purchase in markets. They learn to differentiate consumption expenditures from investment and understand investments as the postponement of consumption. The idea is that by purchasing something individuals add utility. If the added utility weighs up against the costs, the consumption is rational.

When we study the instrumental economy this way of conceptualizing what people do, makes sense and is effective. For one, it lends itself to modelling as many an economist is intent in doing. But it also unnecessarily limits the perspective and makes freshmen miss the point. They can once again consider their own experiences. Then they will notice that mum or dad brought home the bacon not to consume it themselves. No, they would put it in the refrigerator and the morning after use it to prepare a nice breakfast for the family while exchanging niceties like 'how did you sleep?', 'what are your plans today?' or 'maybe we should be considerate of the climate and stop eating meat'. Mum or dad did not consume the bacon but used it as an input, ingredient, for the practice that is called family. What economists call consumption is an instrument to realize something else of value. That is basically true for

everything people purchase: it is good for something else, for a good that is not economic if we stick to Robbins' narrow definition. With a broader scope we can recognize what mums and dads do buying bacon, preparing breakfast, and adding some conversation to boot is part of the economy of the home. We consider people buying bacon and preparing breakfast at a diner part of the economy too. Mum and dad have a choice: having breakfast at home or go with the family to the diner. Why then would one activity be economic and the same activity not? Why does it matter that it takes place in a diner or at home? According to Robbins both activities are economic.

Let me pursue this way of reasoning some more. The question is like the one Robbins raised in a situation with a person cast away on an island: can we detect an economy in a household? The case is appealing because the memories of freshmen of their life at a home are still fresh. They will recognize that running a household is demanding and involves lots of tasks. It maybe a little strange if we were to think of the home as a combination of hotel, restaurant, care, taxi, tutoring, entertainment, and education services. But that is what running a household is about. Driving around kids is a job outside the household, as is preparing meals, tutoring, care taking, lodging, and providing vacations. In the hotel business, people earn an income doing those tasks; they are priced and thus submitted to the logic of exchange, and part of GDP. This is not the case for all the work people do in the household. There are no markets operating inside the home. Just imagine, a world without markets! Where did we see that before? Right: in the world of Robinson Crusoe.

Inside their home, members of households usually refrain from the logic of exchange and organizational logic. When they operate outside their home, they are more likely such logics. They do so when they are going to shop, take on a job, engage in financial transactions and work with or for an organization. But from the perspective of the kids, markets are external. Market events like rising energy prices are externalities that they must deal with (by showering less and turning down the thermostat.) Organizational life, that is, the practices of firms and governments, are external, too. Most kids have no idea what role these organizations are going to play later in their life.

Conditions of scarcity still apply. The members of the household must make choices. That characteristic stimulated Becker to apply the economic approach

of designing choice situations to the household. But such an approach does not make a great deal of sense to those living in a household, as it leaves out what is most important to them.

For one, why are parents doing what they do? Why are they working so hard at home, doing all those tasks for which they usually were not educated; why are they spending most of what they earn for household expenditures, and why do American parents go out of their way to pay their kids through ridiculously expensive colleges (writes a Dutch parent who had to pay only €2,500 tuition per year)? In the past all this could be considered an investment to secure income and care later at older age. Not so anymore. Quite a few parents must praise themselves fortunate when their kids bother to come home once a year and show some gratitude for their efforts. What is the deal? Where is the logic?

We could call us parents altruists: we give a great deal and do not expect anything specific in return. The idea to present your kids an itemized bill after finishing their schooling (with a generous pay back schedule) would be laughable or scandalous. If we stick to the narrow set-up that Robbins leaves us with, it would be hard to make sense of such behaviour. Might we consider kids private goods? Might possessing them provide so many benefits that they weigh up against the costs? No, that is not going to fly. Our freshmen would be quick to kill such a reasoning. Most parents would be confused.

Let me suggest another approach (see Klamer 2017, for a full account). Consider the family as a shared good, that is, a good that the members of the family collectively own. They can say that their family is theirs, excluding everyone else. It is not, therefore, a public good. It is not a private good either since there is no market to purchase, or sell, a family. (Need a family? Guess what: I have a great family in the offing, with four clever and interesting kids, a cat, a wonderful and loving wife, a nice history. What is your offer?) Yet, having a family is priceless. It is what homeless people miss most. People who are lonely or homeless might also wish for being part of a warm and loving family. When people are asked to name their most precious possession, they often mention their family. Losing their family would be the worst that could happen to them. Having a family is not part of any welfare function that economists formulate, though, and not part of their wealth. Yet, ask yourself what is worse losing: your home or your house?

Even so, economists keep counting the price of our houses and ignore the values of our homes.

When we picture the human economy, we will quickly identify shared goods like a home, friendship, culture, trust, religion, knowledge. Name a really important good, and it will most likely be a shared good.

Clearly, shared goods are not to be bought or sold. They cannot be provided by governments, either, or organized by firms. As the case of the home illustrates, people of a household can claim a home theirs by virtue of contributing to and participating in the practices that constitute a home. When I fail to contribute sufficiently, I may risk that my wife changes the locks, and my kids refuse to talk with me. People need to contribute and participate to sustain their home.

Willingness to contribute is the key. It is part of what we could call the social logic, as distinct from the transaction or exchange logic. In a shop you get what you want by your willingness to pay, at home kids get their way by being nice, whimpering or having a tantrum at times, negotiating, appealing to love. Freshmen know all too well how they get their parents to get them the car, or this ridiculously expensive education. Maybe the principle of reciprocity applies, but economists take notice: in the social sphere the terms of reciprocity are left ambiguous, and it is undetermined when and how kids will return the favour, if ever.

Virtually all people grow up in such an economy. I call it the human economy because it is the economy in which we realize what is most important to us. Hunters and gatherers did not know better than such an economy (Graeber and Wengrow 2022). That makes the case most relevant. Robbins cannot claim the same for his case. Few will ever find themselves alone on an island.

Once we have the notion of shared goods, we will see them all around. And with that we recognize the vast, and varied terrain of the human economy. Take the economy of knowledge. You can buy a book, but that does not get the knowledge that it contains. To get that knowledge, you will have to contribute to the practice that is knowledge by reading and studying the book, writing about it maybe, or at least discussing it with others. You need to be willing to contribute. Making sense, developing and sharing knowledge (what you and I are doing right now) is an economy in and of itself: it is part of the human economy more so than the instrumental economy (which will weigh in when we buy books, pay for a

seminar discussing them, and giving up paid working hours in order to read and to study.)

When the practice involves many people, including people you will never be able to know, we better speak of a common practice. This resembles a common as defined by Elinor Ostrom (1990), but whereas her common is a resource that people can use (and deplete), a common practice requires contributions and participation of many. A common can be used up, the value of a common practice increases with people using it (think of Wikipedia and other open sources, or of politics).

In case of shared and common goods there is no free riding. When people do not contribute, they have no part in it, they are not sharing the ownership (and therefore lack the knowledge, or are without friendship, a home, or a faith).

Much of the language that the set-up of Robbins engenders, fails to make sense in the economies of the home, friendship, or a religion. People do not consume or produce shared and common goods. It does not make sense to say that people make use of shared goods, unless we mean to say that they take advantage and therefore risk losing the good. By contributing and participating people add value to the shared good. The more friends invest in their friendship, the more valuable it becomes. The more people participate in a knowledge practice, the more relevant that knowledge gets. The quality of efficiency that is so appropriate in market and organizational settings, fails to make much sense when people make a home. Parents seeking to be efficient in being loving and caring are likely to run into trouble. (My kids would be dismayed if they were to find out that I am ‘economizing’ my attention to them. So would my friends.)

When contribution and participation are the required actions, rational set ups most likely will not help us. Maximization set ups will not do. Working with and on a shared practice requires something like phronesis, practical wisdom, to weigh the options and to assess the qualities involved. The choices have a moral dimension. Am I a good father when I am absent a great deal to contribute to knowledge practices? You can do too much or too little. What is then just enough? What is the right thing to do? (See Aristotle 2009, Klamer 2017).

That is also how Adam Smith approaches economics. The moral thing to do, is to be benevolent, to ‘assist our brethren’, to be magnificent, but when we face

conditions in which we cannot act accordingly, we better address ourselves to the self-love of the other and ask him what he wants in exchange for what we want from him. The preferred logic, though, is the social one, as practiced in the home, in friendships and in the commons.

Due to the axiom of Robbins, and the extensive and almost exclusive attention for transactions, standard economics misses out considering economies in a broader sense, including goods and practices that are most relevant, and may account for phenomena that otherwise cannot be explained (like presumably altruistic behaviour and the resistance to financial solutions to climate problems).

The economy of abundance

We might conclude that even the condition of scarcity does not justify the exclusive application of the logic of exchange. That much Robbins had already established. Markets are absent on the island of Crusoe. Our extension concerns the recognition of shared goods and the need of social logic to account for the way in which they come about. The suggestion is that Crusoe was operating a human economy by developing a relationship with Friday and reading the bible.

The same conclusion applies when we consider the economy of abundance. What is the rational thing to do when there is too much food, too much information, too much attention of others and when someone has too many financial resources, too many privileges, too much luck?

What to do with a billion dollar in your bank account? You will never be able to spend it in a meaningful way during your life. Will you shift the responsibility to your children? What if you are so successful in getting attention for your work, that reporters and photographers chase you wherever you go? What if you have so much information that you do not know what to do with it? What if you feel embarrassed with your privileged life?

One way of making sense of such situations is to identify the human economy in which you are operating and, therefore, to highlight the moral aspects. Aristotle argues that people with a great deal of financial resources ought to be generous, and people with extravagant financial wealth ought to be magnificent, capable

of a grandiose gesture. A life of abundance, therefore, requires a sense of responsibility, and with that the ability to determine the right thing to do.

Common practices fit, too. The more people make use of them, participate in them, the more valuable they get. Again, these activities are part of and constitute the human economy.

This applies to choices people make every day. Will you take hour long showers when you believe that we should be parsimonious with water and energy? Do you fly even when flying is faster and cheaper than taking the train? Do you accept a raise even when you have sufficient financial resources for a good life? In all these you afford doing something that you may not consider as doing the right thing.

Likewise, growing in terms of generating more financial value may not be the obvious thing to pursue when we have this broader perspective. We may rather want to improve the qualities of relevant practices by becoming more social, more just, more caring, greener, more compassionate.

Methodology

One argument with which economists may dismiss my suggestions is that it does not come in the form of a model. It is true that I do not indicate how to model shared goods and the willingness to contribute. Let me be clear, I do not intend to put the modelling down. Models remain illuminating when we try to make sense of the instrumental economy, that is, the economy of markets. Their relevance is dubious when we deal with qualities and values of practices in the human economy.

Moreover, if we apply the methodological criterion strictly, we need to disqualify Adam Smith, Alfred Marshall, John Maynard Keynes, Friedrich Hayek, Kenneth Boulding, Deirdre McCloskey, James Buchanan, and a bunch of others as economists for not working with models. That does not make sense. A plurality of methods will do.

Redefining economics

I have reached the point where I can offer the more expansive definition of what is economic, what constitutes the economy and informs the practice of economists. As stated before, I follow in the footsteps of respectable economists such as Smith, Aristotle, Keynes, Boulding, Hirschman, McCloskey and possibly Buchanan and cover the practice of economists who adhere to one or another religion, or Buddhism, and conceptualize green, circular, donut economies and the like. Like all of them I define economics as a moral science, with standard neoclassical economics as a subset. This is the definition I propose:

Economic is any action that is directed at the realization of values; the economy comprises all practices geared towards the realization of values. Economics is the science that studies such practices.

It is furthermore instructive to distinguish the instrumental economies of markets and organizations from the human economy, as I have been doing in the preceding discussion:

The instrumental economies comprise all practices that are instrumental for the generation of goods and services (the inputs) that people need to realize what is important to them.

The human economy comprises all practices that people engage in to realize what is important to them in the form of shared and common goods; it is a value-based economy that revolves around relationships.

This definition encompasses current practices of economists but a great deal more and should do justice to concerns that 'renegade economists' address. The workings of price mechanisms, the functioning of markets, the effectiveness of pricing externalities, the consequences of higher interest rates, rigidities in the labour market and the endless topics that standard economics covers remain relevant. But the domain of relevant phenomena that this new definition identifies as economic will be much greater. A simple purchase, if considered in the broader context of the value-based economy involve all kinds of values. Buying meat at a shop might turn out to be problematic in a moral sense. Pricing CO₂ emissions, as economists propose to combat pollution, may be objectionable because of the effects on low-income people or because of conflicting interests.

Klamer Arjo (2023), An essay on the need to redefine economics for the sake of a human economy, *The Journal of Philosophical Economics: Reflections on Economic and Social Issues*, XVI (Annual issue), 162-181

This value-based approach gets economists alert to value conflicts that an excessive focus on market practices can generate. Too much governmental involvement can not only crowd out market practices but also social and common practices. When confusion in sense making practices reign, effective policy making will be thwarted as well as the functioning of organizations. When organizations lack a sense of purpose, they may destroy values. Financial richness might generate social and cultural impoverishment. When the poor are being neglected (see the homeless in San Francisco), civilization suffers. Seeking maximum profit may demotivate the people who see to make meaningful contributions to relevant common practices. All such issues will become relevant. Again, pricing, the functioning of markets and organizations, the effect of high interest rates and an increase in the money supply are that, too, but always in an instrumental way that requires additional work to figure out the impact on practices that really matter in the end.

Our freshmen will benefit. Getting trained in the logics of the human economy, with its relationships, its values, its sense making, its sense of purpose, they will have a whole range of new topics to tackle in their essays and theses, and later will discover how appropriate their acquired knowledge will be when they start working for purposeful organizations and governments that seek to improve the qualities of societal practices.

Acknowledgments

Thanks go to the reviewers, the editor, and participants in the seminar on the value-based approach for their constructive comments.

Conflict of Interest Statement

The author declares that there is no conflict of interest.

References

Aristotle (2009), *The Nichomachean Ethics*, L. Brown (ed.), (transl. by D. Ross), Oxford: Oxford University Press.

Klamer Arjo (2023), An essay on the need to redefine economics for the sake of a human economy, *The Journal of Philosophical Economics: Reflections on Economic and Social Issues*, XVI (Annual issue), 162-181

Graeber, David, and David Wengrow (2022), *The Dawn of Everything*, London: Penguin Books.

Jackson, Timothy (2009), *Prosperity without Growth*, London: Earthscan.

Klamer, Arjo (2017), *Doing the Right Thing: A Value Based Economy*, London: Ubiquity Press.

Klamer, Arjo (2019), 'Economy and culture: the importance of sense-making', in Mark D. White (ed.), *The Oxford Handbook of Ethics and Economics*, Oxford: Oxford University Press, pp. 270-294.

Klomp, Kees and Shinta Oosterwaal (2021), *Thrive: Fundamentals for a New Economy*, Amsterdam: Business Contact.

McCloskey, Deirdre (2000), *How to Be Human, Though Being an Economist*, Ann Arbor: University of Michigan Press.

Menger, Carl (1871), *The Principles of Economics*, Auburn: Ludwig von Mises Institute.

Ostrom, Elinor (1990), *Governing the Commons: The Evolution of Institutions for Collective Action*, Cambridge: Cambridge University Press.

Raworth, Kate (2017), *The Doughnut Economics: Seven Ways to Think Like a 21st Century Economist*, London: Penguin Random House.

Robbins, Lionel (1932), *An Essay on the Nature and Significance of Economic Science*, London: Macmillan and Co.

Trebeck, Katherine, and Jeremy Williams (2019), *The Economics of Arrival: Ideas for a Grown-Up Economy*, Bristol: Policy Press.

Vernon L. Smith and Bart J. Wilson (2019), *Humanomics: Moral Sentiments and the Wealth of Nations for the Twenty-First Century*, Cambridge: Cambridge University Press.

Arjo Klamer is a visiting professor of human economy at the Vrije Universiteit in Amsterdam (Klamer@eshcc.eur.nl).