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The Nature of Economics

Robert Heilbroner

Economics is concerned exclusively with the study of capitalism. To presume that it applies to societies that do not possess the unique characteristics of capitalism will only lessen its capacity to illuminate the society to which it properly applies.

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I shall herein raise for examination an aspect of economics that many readers are likely to consider contentious, if not wholly unacceptable. It is that economics is concerned *exclusively* with the study of capitalism. I do not mean “almost exclusively” or “with some exceptions”; nor do I temper my contention with any other such qualifying phrase. I mean that economics has no relevance whatsoever to the study of the hunting and gathering tribes who account for over 99 percent of human history. Nor can it be applied to the noncapitalist stratified orders—kingdoms, empires, feudalities, command societies, or self-styled socialisms—that make up most of the remaining fraction of one percent. I go even further to assert that economics will not have any place in the study of the communal, associationist, or any other mode of postcapitalist social organization that may come into being in some future time. Economics is about capitalism. It has no relevance to any other form of social architecture.

In itself, however, this severely limited relevance is not the aspect of economics at which I shall direct my critique. Rather, the focus of my con-

cern is that the great majority of economists are unaware of the linkages of their studies with one, and only one, social order. This leads not only to serious mischaracterizations of how that social order works, but to misleading applications of “economics” to societies that, despite our easy use

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of the word, do not possess economies.

This conceptual starting point of my contention flies in the face of the received wisdom, and might seem to be an overstatement even to those readers who feel some stirrings of sympathy with my opening remarks. I need hardly add that my assertions must appear wholly insupportable to the majority of neoclassical economists. Here I might quote the distinguished economist, Jack Hirschleifer:

"[It] is ultimately impossible to carve off a distinct territory for economics, bordering on, but separated from, other social disciplines. Economics penetrates them all, and is reciprocally penetrated by them. There is only one social science. What gives economics its imperialist penetrative power is that our analytical categories—scarcity, cost, preferences, opportunities, etc.—are truly universal in application. Even more important is our structured organization of these concepts into the distinct, yet intertwined processes of optimization on the individual decision level and equilibrium on the social level. Thus, economics does really constitute the universal grammar of social science." (See "The Expanding Domain of Economics" in For Further Reading.)

It is evident, then, that I have much to do to make my case plausible. I must first establish exactly what I mean by capitalism if I am to make it the *sine qua non* for a discipline called "economics." Second, I must explain why this discipline cannot be applied to any society outside such a framework. Last, I must consider the consequences (both for theory and practice) of formulating a body of knowledge called "economics" without a specific awareness of its strictly limited applicability.

CAPITALISM DEFINED

I shall begin my task by defining capitalism—a less awesome task than it might appear at first. I believe that it is clearly identifiable among the social formations of history merely by virtue of three characteristics. No one of them is sufficient, but all are necessary, to bring about its existence.

We owe the first of the three identifying elements to Marx. The entity or process called capital is the unique hallmark of the social order that bears its name. At the risk of stating the obvious (one I am forced to assume in view of its being generally disregarded in conventional economics), I must distinguish here between two distinct meanings for this crucial term. As an enduring physical (perhaps organizational) residue of labor, capital is as ancient as social effort itself. No human society can exist without producing or discovering artifacts by which to facilitate social reproduction. The clubs of neolithic man, like the machines of modern society, are exemplars of physical capital. As such, they are essential to social existence. Capital, in the sense described by Marx, refers to something quite different. It deals with a

process in which physical capital loses its meaning as an object of use-value to gain a new meaning as a link in a chain of transactions, the purpose of which is the enlargement of exchange-value (itself a term that connotes a specific, although not exclusively capitalist, social setting). This circuit of M–C–M' (where M' > M) is the self-replicating genetic unit of capitalism.

As such, the unit becomes the building block that endows the social order of which it is the vital constituent with an internal dynamism, with a sense of historical purpose, and with specific institutional needs that are comprehensible only by reference to the M–C–M' process. Many kinds of societies possess and accumulate wealth as objects that confer virtue or power on their owners. In some precapitalist societies, there are small pockets of capital in its self-expanding form. One thinks of mercantile enclaves within social frameworks ranging from ancient Egypt to late feudalism. But only when the capital circuit becomes central can we speak of a capitalist social order. Only then, by my still undemonstrated chain of reasoning, can we

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discover the peculiar structure of theory and analysis called "economics."

The crucial role played by M–C–M' raises a question of great importance and elusive comprehension—namely, the source of this powerful, apparently limitless drive. That source can, of course, be subsumed under the rubric of utility maximization guided by rational choice. The well-known difficulty with this explanation lies in its tautological character. My own answer locates the insatiable nature of the M–C–M' drive in the reenactment of the universal fantasies and frustrations of infancy and early childhood. This deeply buried source is perhaps the closest we can come to ascribing the drive for capital to "human nature." Also, the fact that the drive itself emerges as a social force so late in human history makes it abundantly clear that cultural pressures can greatly restrain the adult reenactment of these drives, just as rational considerations of self-defense can reinforce them in a social order of generalized predation (see my *Nature*

and *Logic of Capitalism* in For Further Reading). These are aspects of stratified social orders about which we know very little, and to which conventional economics pays no heed whatsoever. But they suggest a foundation for the motivations of the M–C–M' process very different from that which would follow from Hirschleifer's depiction of economic behavior as arising from "scarcity, cost, preferences, opportunities, etc."

It remains, however, to complete our tripartite definition of capitalism by attending to its two other distinctive and essential structures. One of these is a network of channels of exchange—established and protected by an extensive framework of law and custom without which the process of capital accumulation could not take place. The network is, of course, the market mechanism, much celebrated as the quintes-

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sence of the social order of which it is indeed an indispensable means, but not a sufficient whole. Like M–C–M', the market network has no counterpart in any noncapitalist society, even though individual markets play useful roles in most tributary and even some hunting and gathering societies, as well as in *soi-disant* socialist ones. In the analysis of the developed market system as an allocatory mechanism, economics finds its most extensive and familiar application. But, in the general nonrecognition of this system as dependent on an underlying sociopolitical structure, economics also demonstrates one of its most crippling conceptual limitations—a matter to which we shall return.

The third identifying element is "political." I put quotation marks around the word to call attention to a curious extension of its meaning in a capitalist order. Like all social systems, capitalism requires a structure of horizontal and vertical order. The former is largely concerned with the maintenance of stable intraclass social relations. The latter deals with widely accepted interclass distinctions. As in noncapitalist societies, much horizontal orderliness is provided by informal

(i.e., unwritten) customs and conventions such as familial (kinship) systems, traditional social standings of different occupations, and the like. But the relative importance of these arrangements is diminished in a setting where market relations play a large role. In similar fashion, vertical order under capitalism is mainly determined by two considerations: (1) possession or nonpossession of capital, which essentially divides the society into its two main economic classes; and (2) access to formal political power which establishes a similar, but by no means identically gradated, hierarchy of precedence and prerogatives in the various structures of government proper.

We should note, however, that the presence of a class structure as such, or even one determined by capital, is not of unique identificatory importance for capitalism as a political order. After all, a class structure based on capital only replaces much older hierarchical arrangements determined by genealogy, military force, or other such attributes. The crucial political hallmark of the order is the coexistence of two realms of power—one public, one private. In the public realm are located the institutions that have the capabilities to wage war and establish law and order—the essential function of government in all societies. Usually, but not always, the establishment of law and order is used in a capitalist society to further the interests of the capital-owning class. In the private realm are found the activities of the M–C–M' process, the forms, objectives, and strategies of which are left largely to the decisions of this class, including its managerial subordinates. The authority of capital is not absolute within the private sphere. Capitalists who wield "economic" power cannot disobey the law or take into their hands the trial or punishment of competitors or workers. But, within the general process of capital accumulation itself, their unimpeded prerogatives are very great. This bifurcation of authority is historically unique. The political function knows no such boundaries in all other social orders. It is here, obviously, that economics displays its limitations of vision. It regards the exercise of the M–C–M' function as a matter that falls outside the scope of political inquiry, because it lies within the domain of private economic activity.

It is apparent that this is no more than a stylized sketch of a capitalist order. I have only pointed to the psychological and social roots of the drive for wealth, or its correlate, the appeal of power. My sketch ignores the historical process by which capitalism emerged from the chrysalis of a decaying feudalism, a

consideration that greatly influenced the specific forms assumed by the developing M-C-M' core. Nor does my depiction illuminate the formation of the monetary institutions and forms of property needed to allow capitalism to work. It is not concerned with the crucial importance of the dual realms of power with respect to political liberty. Nonetheless, I think it is sufficient to serve our purposes in identifying the social order that also uniquely boasts the disciplinary study we call "economics."

ECONOMICS AND NONCAPITALIST SOCIETIES

I now broach the crucial step in my argument that economics is peculiar to a capitalist order by gladly conceding the conventional starting point—that all societies must undertake activities of production and distribution without which they could not survive. Here I have a simple question. Directing our attention solely to precapitalist orders, can we say that we need the concepts of economics to describe, much less understand, the productive and distributive processes necessary for their continuance? I shall put the question as concretely as possible with an illustration I have used more than once. It describes the distribution of food produced by a group of hunters in the Kalahari grasslands of Southwest Africa:

"The gemsbok had vanished. . . . Gai owned two hind legs and a front leg; Tsetschwe had meat from the back; Ukwane had the other front leg; his wife had one of the feet and the stomach; the young boys had lengths of intestine. Twikwe had received the head and Dasina the udder.

It seems very unequal when you watch Bushmen divide the kill, yet it is their system, and in the end no person eats more than the other. That day Ukwane gave Gai still another piece because Gai was his relation, Gai gave meat to Dasina because she was his wife's mother. . . . No one, of course, contested Gai's large share, because he had been the hunter and by their law that much belonged to him. No one doubted that he would share that much with others, and they were not wrong, of course; he did." (See *The Harmless People* in For Further Reading.)

The example enables us to examine the meaning of "economic" activity with unusual clarity. What knowledge do we require to explain the productive and allocational activity of the Kalahari? We certainly need

information regarding the mode of hunting itself—knowledge that might be generally described as technological and organizational. In addition, we must have an understanding of whatever sociological ("cultural") considerations apply to Kalahari life. Usages vary considerably even among societies whose sociopolitical structures are alike, with important consequences for their provisioning and distributive activities. But economics? If we were apprised of the above particulars, what would be left for an economist to explain?

That same question can be addressed to the activities by which other kinds of noncapitalist societies sustain themselves. Passing over ancient societies of command such as Egypt, let us consider the ex-Soviet Union with its bevy of economists, economics journals, institutes of economics, and the like. What did these individuals or institutions study or elucidate? Techniques of production, comparative efficiencies, input-output relations, bottlenecks, externalities, bureaucratic problems, consumer demand, and elastic-

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ities of supply were certainly high on the list. But are such technological or sociological matters "economics?" Obversely, would we call someone possessed of the skills of an engineer, a management expert, a political "fixer," or a skilled marketing stylist an "economist?" Indeed, taking away the technological complexity and highly developed institutions of central command of a society such as the ex-USSR, in what "economic" way does the solution to its production and distribution problems differ from that of the Kalahari? To pose the central question one more way, what would be the content of the uniquely "economic" knowledge needed to elucidate the provisioning problem for any, or all of these noncapitalist societies? My answer is: none.

UNDERSTANDING CAPITALISM

Having devoted this much space to adumbrating what economics does not do, let us turn the inquiry around by asking whether someone reared in the Kalahari or

in the former Soviet Union would be adequately prepared to understand American or Japanese or German life by studying modern technology, sociology, political institutions, and the rest (economics, of course, excepted).

The answer can be put succinctly. Our pupils would not be able to understand how these societies provisioned themselves. Given the virtual absence of tradition or central command as an animating or coordinating force, who or what energized and directed the activity of production? How was it that goods and services produced in such seemingly chaotic fashion appeared to match the changing "demands" of buyers? In what manner was the population provided with the wherewithal to exercise its claim on goods and services? To say the all-important word once more, our visitors would not understand the *modus operandi* of capitalism. In other words, they would not understand economics.

Would they understand it if they read a conventional economics text? The answer is yes and no. No, they would not understand the central principle of the social order they were investigating—the self-expanding M–C–M' process. Perhaps our Soviet visitors might see in "capital" an analog of the idea of

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"power," and might then explain the accumulation of capital as the expression of some presumably universal desire to increase the form in which that social relation was denominated. Our Kalahari visitors would have a much more difficult time. They come from a social order in which power (to the minor extent that it existed) was denominated in reputation and not easily subject to indefinite expansion. Thus, I fear that the core process of capital would remain as little understood by our visitors as by their instructors who, if interrogated about the basis of the dynamism of the system, would ascribe it to "human nature" maximizing its utilities by the exercise of rational choice.

Things would no doubt fare somewhat better when it came to explaining the market "mechanism." Its driving force has been taken for granted. The same

might be true of the relation between the two realms as well. The public realm would then be explained as the remnant of a once seamless realm of political power, now largely confined to areas in which the market was not permitted to enter—such as the application of law. The private realm would be explicated as the natural realm of the market, once it had been released from its age-old captivity. Capitalism itself might now appear as a "system" where ancient political powers were constrained by the legitimation of the market—a benign substitute for the far bloodier modes of administration characteristic of most stratified precapitalist societies. That which would remain unexplained (worse, go unnoticed) was that neither the market nor the private realm would exist without the subterranean foundations of a drive to amass capital with all its nonrational, imperative properties.

Nonetheless, if we overlook this political or social innocence, there can be no doubt that economics sheds light where there would otherwise be darkness. Given a motivational structure of acquisitive behavior directed to the accumulation of capital, and the legal constraints of property and competition, economics bestows a coherent, causal, and roughly accurate predictive understanding of social processes that would otherwise be beyond understanding. For all its failures of omission and commission, that is no small accomplishment. Thus, there remain many highly important tasks for the economist to perform while staying within the boundaries imposed by the need to limit his or her explication to the processes of capitalism. The fact that this truly economic knowledge has no trans-systemic relevance may disappoint the person who believes that an understanding of economics is an Open Sesame to all modes of social organization. What such a true believer fails to appreciate is that it is precisely this elevation of economics to suprahistorical and suprasocial heights that contaminates it with a peculiar form of ideology. By that treacherous word—ideology—I do not mean an intent to deceive others, but an unknowing deception of the self. With modest success, economics elucidates the workings of capitalism. To presume that it applies to societies that do not possess the unique characteristics of capitalism will only lessen its capacity to illuminate the society to which it properly applies.

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