

Economics is not about wealth or scarcity, but choices. A behavioral approach to understand the history of economic ideas through a definition.

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ABSTRACT

Economists and doctrines have defined economics according to their own perspectives and historical situations. However, the definition can also aim at achieving a better understanding of how economic ideas evolved through history.

This article presents a definition of economics based on three concepts derived from the behavioral economics framework, which can provide scholars with a system to compare the diverse contributions on history of economic thought. The debates and accumulated contributions of ten of the most important economic authors through history are dissected under the proposed framework.

This approach will allow to understand the evolution of economic ideas further the traditional confrontation between doctrines and authors, searching for complementary views from diverse social sciences and historical scenarios.

INTRODUCTION

Robbins (1935, p. 16) defined economics as “the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses”.

The criticism against this perspective, detailed in Backhouse & Medema (2009a), pointed several objections. First, societies are mainly dynamic, so resources availability and utility evolve continuously and only a dystopian planned-economy government could imagine that definition. However, Robbins did not seem very concerned on supporting empirically his definition.

Second, that economics appears as an “imperialist” science in front of other sciences, social or not, that also participate in discovering resources and determining preferences (utility).

It is scarcity where nowadays his definition can be weaker, practically a naïve term for most of the world where technological progress is breaking the crystal sky that limited resources like capital, technology or food in the past (Matthaei, 1984).

However, Robbins’ holds to be the most extended definition of economics among scholars (Stigler, 1984) and behavioralist authors would thank him to include the words “human behavior”. Also, Backhouse & Medema (2009a), remark its influence over the subsequent orientation of economic investigations, endorsing the weight of definitions on economics evolution.

Jacob Viner, resolved the question of the definition of economics by saying that it is what economists do (Buchanan, 1979), something that this article is aimed to surpass.

Defining economics go beyond a simple introduction and statement of intentions for the

economists and can be useful to compare and integrate diverse approaches (Backhouse & Medema, 2009b).

A BEHAVIORAL DEFINITION

My hypothesis is that defining economics *as the social science about how to make decisions according to Preferences, Options and Incentives*, provides new insights to understand the history of economic ideas.

By preferences, social scientists study needs, the economic theoretical concept of utility, competitive ends, culture and principles. It inherits “ends” from Robbins’, a wide field of investigation attended by many different specialities (psychology, sociology, anthropology, etc.).

Identifying options is related to the availability of information and cause-consequence relationships, two fronts of dispute between classical economists and alternative approaches. Classical model assumes perfect information while other views argue an asymmetric distribution of the information. Besides, for the latter, choices are influenced by biases which get people away from rational decisions. It inherits the term “uses” from Robbins’.

Finally, the practical aspect of economics is another source of debate. For the traditional classical framework, markets adjust on their own, but every economic doctrine, even those near classical ideas, has recommended different incentives, in the macro or micro level, defining diverse economic policies.

Neither incentives nor policies are decisions. The latter are affected by the previous three elements of the triangle. Institutions (social scope) and individuals (individual choice) make their decisions supported by the preferences, options and incentives they

take into consideration. Confusion between incentives and decisions can be clearly solved by observing that the display of incentives by political programs or other influences are not necessarily effective over economic agents.

In behavioral economics this process is more evident, since options, nudge (incentive) and heuristics (process to decide) are clearly delimited. Unlike interventionist policies, the stimuli or nudges cannot be costly, coercive or manipulative (Aliende, 2020). These two properties become behavioral economics an optimal approach to analyse other economic doctrines.

The political fight to establish one economic decision or other, leads the discussion about ideas to a public debate or confrontation (Frieden, 2020), frequently polarized in conservative, liberal, social democrat, and Marxian ideologies.

Economics results the loser on this type of battles, since economists, who should be considered social scientists, are seen as followers or a vested-interest arm of the political contenders. The step from ideas to ideologies become the political parties in rent-seekers (Van Biezen & Kopecký, 2007) or state agencies.

The reader could find ambiguous the meaning of incentives, as a synonym of policies, that I adopt in the article. The sense of the term holds the combination of interventions (stimuli, incentives, policies or nudges) that a decision in an economic matter implies. Comprehensibly, they are interconnected with the options that an author or economic doctrine identifies.

Robbin's definition of "human behavior" results vague. It can widen or shorten economics' scope on a whim.

In the following point, I am going to detail how this framework help analyse the contributions of top ten economists in the history of economic thought and demonstrate

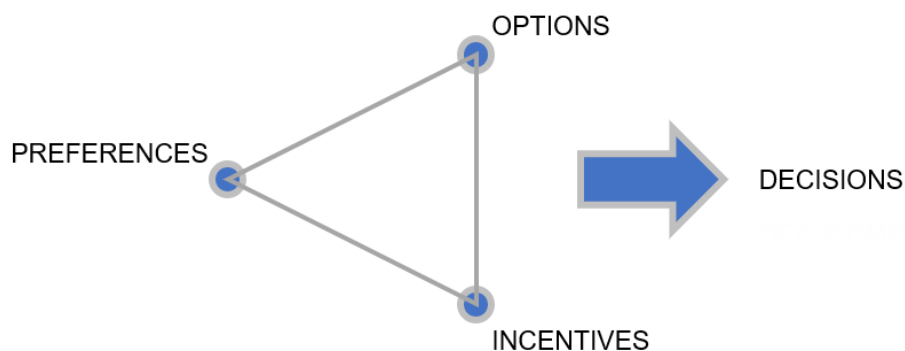
how the framework shows a discussion ground that will allow to differentiate how different ideas can confluence in complementary recommendations or, at least, to identify which is the part of the triangle where they become irreconcilable.

METHOD OF ANALYSIS

It can be said that economists work around the following triangle deduced by behavioral economics: some preferences prioritize available options which need incentives (stimuli, nudges, policies...) to drive people to one or the other option, and then lead people and organizations to decide in a certain way.

Among the three elements of the triangle, it is preferences the least prone to be estimated by economics. Whatever the sphere, individual or collective, of utility functions are not the result of exclusive economic calculations, but the outcome of diverse sciences and social strengths.

Frequently, preferences include moral judgements beyond the utility expressed in the market by suppliers and clients. Not for nothing, Smith firstly published “Theory of moral sentiments”, before “The wealth of nations”.



Before making any decision, economics may analyse the available options and, as history demonstrated, clarify possible scenarios by means of models and concepts like

supply-demand, money supply, purchasing power, input-output tables, competitive advantage, opportunity cost, value theory, multiplier, etc. For example, Fisher clarified how a certain rise of money supply could only impact the price level and not the general income.

As a practical science, a large part of economics is about recommendations or policies (incentives). In this area, we find the study of political programs. Whether they finally become decisions will depend on the play of institutions.

The utility of the triangle can be illustrated by reviewing the contributions of the main economists through history.

A REVIEW OF THE HISTORY OF ECONOMIC IDEAS

Adam Smith proved that specialization and free market would allow to reach higher levels of progress or more convenient options by increasing the economic growth.

David Ricardo added international trade to this perspective. Their natural law will drive to recommend just setting the legal framework and leave economy in the market hands. Implicitly the preferences expressed will be to increase growth, no matter the social level.

Robert Malthus left little space for sustainable growth because of the “population trap” in times of prosperity. His debate with Ricardo took place about their different positioning about the Say’s Law (supply creates its own demand and savings equal investment) that Malthus rejected, opening the door to fiscal policy (incentives).

Karl Marx would respond by showing the final consequences of capitalism that would concentrate wealth and reduce the options for most of the population, since the market logic offered incentives for walking to a complete monopoly. He did worry about the

conditions of life of the working classes (preferences) distinguishing their ends of those of the company owners. In their work, economic policy was not enough to carry out the change that society needed to avoid the contradictions of capitalism.

These four economists underlined wealth as the central concept to define economics. Even so, they disagreed in their approach to the triangle and it is useful to explain what is the reach of the proposals of each of them and to be sure they are talking about the same topics or how far they converged in complementary points of view.

Frequently, economic debate mix-up political fights. When interests and moral judgement enters the debate, it becomes harder to agree on terms to make a joint decision. In democratic countries, that dispute is solved by voting and the winner party is the one empowered to apply their political ideas or the fruit of the interests before them. Counting on a framework to dissect economic contributions and compare them give us a tool to separate ideas and political interests.

By the term decisions, we find everyday choices as well as those related to the change of social contracts (like marriage, system of government, market regulation, etc.) in the words of institutionalist authors. Of the four mentioned authors, only Marx advocated a profound change in social contracts instead the Smith's natural laws.

Table 1 summarizes the contributions of ten main economists through history related to the framework I am proposing.

Economist	Contributions	About
A. Smith	<ul style="list-style-type: none"> - Specialization - The existence of a natural law (self-regulation) and the positive consequences of the “invisible hand” 	Options
D. Ricardo	<ul style="list-style-type: none"> - Open trade 	Options
K. Marx	<ul style="list-style-type: none"> - Contradictions of capitalism - Situation of the working class 	Options Preferences
R. Malthus	<ul style="list-style-type: none"> - Population trap 	Options
S. Mill	<ul style="list-style-type: none"> - Social welfare 	Preferences
A. Marshall	<ul style="list-style-type: none"> - Supply and demand balance - Effects of policies 	Options Incentives
J.M. Keynes	<ul style="list-style-type: none"> - Public demand and fiscal policy 	Options Incentives
M. Friedman	<ul style="list-style-type: none"> - Free will advantages 	Options
A. Sen	<ul style="list-style-type: none"> - Development economics 	Preferences Options Incentives
R. Thaler	<ul style="list-style-type: none"> - Heuristics and biases 	Preferences Incentives

Mill, inspired by Bentham, presented the difference between individual utility and social preference, although he is also seen as a classical author who supported free individual choice, he drew the limits of not harming the well-being of others. He embraced policies “in the proportion as they tend to promote happiness, wrong as they tend to produce the reverse of happiness.”

Marshall, and the marginalists, worked to have an integrated view of previous analyses including both supply and demand sides to clarify the relevance of balance and the impact of incentives. Therefore, he was key to understand the veracity of options and the consequences of policies and incentives. He also defined economics according to the welfare it could provide, opposing to the previous paradigm of wealth.

Keynes tried to demonstrate that incentives were necessary to get to the full employment and reach a superior optimum in terms of that more people could enjoy higher levels of utility without waiting for an automatic adjustment. When he criticised long run scope from the classical view, he was focusing on social preferences and the need for incentives.

One of the greatest debates in economics was the one between Keynes and Hayek (Koehn, 2011). On the corner of preferences, they probably witnessed a different landscape of social problems between the unemployment of England and the hyperinflation of Austria. Regarding options, it was a captivating economic debate about different options and desirable policies, between two authors who admired each other.

Other authors like Sidgwick, Pigou or Coase argued the need to intervene in the economy to enlarge options that the market on its own could not afford. They helped create the thought about the market failures that Friedman confronted. For him, a fiscal

policy had more harmful effects than the imperfections it wanted to avoid. It is a debate about options and incentives.

Sen and other relevant authors in development economics, questioned a unique model of options-policies to economic progress. They underlined the situation of developing economies and endorsed specific policies for those societies that show different needs or preferences.

Thaler and Behavioral Economics, remark that the preferences for people have not to follow rationality and in many occasions is biases and heuristics which guide their decisions. Therefore, they connect preferences and policies. Incentives and public policies do not come from the different view of economic options, but from the way people decide.

DISCUSSION

Table 1 does not intend to restrict the wide reach of the works of these authors, but to underline where their main contributions are targeting.

The debates in economics are fascinating because of their didactic capacity and explaining possibilities, but history frequently evolve through a synthesis of different confronted theories.

The example about poor law, illustrates the hypothesis. Authors concerned about the critical situation of homeless in the big cities has little to share with those involved in a debate about the benefits of charity. While the first express their point of view in the form of preferences, the second discuss the available options.

On the preference side we find authors concerned about social welfare, but the other study the choice between freedom and security. Economists discussing in the corner of

options will find more possibilities to get to a common ground, but those who clearly differ at this point hardly could meet.

If we discuss about options, the analysis between causes and consequences emerges relevant, and authors with a similar concern in mind could figure different ways to reach the expected outcome and, consequently, will recommend different policies (incentives).

This conception is valid for both macro and micro scopes. The governmental economic policy, defined as the group of decisions aimed to a particular goal for a country or territory, include assumptions, targets (preferences) and the time to reach the subsequent objectives for industries and other targets.

About individual choices, preferences seem more evident than for societies, options tend to be more visible and, likewise, biases, heuristics and incentives (nudges) play a key role to orientate the final choices of individuals, organizations and groups.

Some explanation must be added about how decisions are taken once options and their related incentives are exposed. Although it is not included in the triangle of economics definition, institutionalists clarify how that process goes beyond pure economics and the result of the play of the institutions and their objectives (Buchanan, 1979).

Consequently, we can differentiate “actual” and “fake” debates. By fake, I mean those arguments where the sides meet a common ground of dispute. For instance, where Smith and Ricardo perceive the natural law that drives societies to superior levels of progress and welfare, Marx sees capitalism heading to monopoly and the deterioration of conditions of life for the most part of the population.

The result of this type of debate can only be solved by a right/wrong solution or their assignment to different circumstances. Fake debates occur when authors look at different concepts to explain their positions.

On the other hand, the debate about the convenience of tariffs would be considered “actual” as long as the thesis of Ricardo and his defence of open international trade meets theories like the infant industry that could fit on specific scenarios with different contexts or assumptions.

CONCLUSIONS

When we look at economic ideas through the triangle I propose in this article, it is easier to understand what are the roots of disagreements between different doctrines. As a social science, we cannot expect from economics to follow a uniform and orthodox progression, but it would be important to shed light to the open debates and understand why some of them are difficult to be concluded.

Governments and societies will understand better the role of economic science under the definition in this article. They cannot wait for economics to mark the path to follow, but to show which options are available and help adopt the most desirable one. However, it will be the diverse social forces (culture, institutions, organizations, etc.) who chose the way, sometimes as united entities and other as a result of social disputes (pacific or not).

Therefore, the approach exposed in this article demonstrates that the definition of economics goes beyond describing what the economists do, but it is a way of understanding the concern, reach and compatibility of every doctrine.

The debates between different doctrines do not require a right or wrong result, but a joined analysis from different complementary points of views.

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