Context (Part 1)

Chronic economic problems continue to plague every facet of human life. Part I of this book briefly introduces the basis of Bernard Lonergan's solution, originally discovered in the 1930's,[1] and subsequently published by the University of Toronto Press in 1998.[2] Lonergan's breakthrough has yet to be adopted by professional economists. However, by the end of Part I, it should be evident that his approach is the scientific basis for a *new standard model* in economics.

First, though, it would help to say something about the current mainstream approach that is taken for granted by professional economists. It is a complex synthesis of views and techniques that only gradually emerged historically. And, irrespective of his own views, Colander's 2004 observation still holds: the face of mainstream economics continues to change[3]. So does debate regarding the setting of priorities for ongoing changes in the field[4].

At its core, the history of economic thought and practice is undermined by methodological confusion. First, there is the widely acknowledged problem of hypothetical models supporting current economic theories, whether social, political, mathematical or otherwise, that, at best, are only loosely based on concrete economic circumstances[5], and second, views and debates about mainstream models are at a still further remove. For not only do they regard models that are not verifiable in instances in economic process (homes, businesses, production, provision, and finance), but the debates themselves center on nominal logic, discussions in general terms, and hypothetical models regarding the hypothetical economic models. And, so far, attempts to reform economics (heterodox, ecological, and so on) follow the same methodological tradition and consequently have not escaped its fundamental limitations. Suffice it to say, then, global progress in economics will require a new foundation for ongoing collaboration in the future academy[6].

For present purposes, this confusion can be illustrated with an example from an Op-Ed in the *Financial Times* on "how to fix university economics courses." Wendy Carlin (University College London) and Sam Bowles (Professor Emeritus at the University of Massachusetts Amherst) observe that

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[1] Part of what moved him to think about economics was the Great Depression. Pierrot Lambert and Philip McShane, *Bernard Lonergan, His Life and Leading Ideas* (Vancouver: Axial Publishing, 2010), 40-42. See also the second last paragraph of Sec. 3.3.
[2] CWL21.
[3] David Colander, Richard Holt, and Barkley Rosser, "The Changing Face of Mainstream Economics," *Review of Political Economy* 16, no. 4 (October 1, 2004): 485–99, https://doi.org/10.1080/0953825042000256702.
[4] Tim Thornton, "The Changing Face Of Mainstream Economics?," *Journal of Australian Political Economy* 75 (Winter 2015): 11–25.
[5] For an elementary instance, a basic feature of contemporary economics is the circular flow model. "Imagine an economy that produces a single good, bread, from a single input, labor. Figure 2-1 [in Mankiw's book] illustrates all the economic transactions that occur between households and firms in this economy" (Gregory N. Mankiw, *Macroeconomics,* 8th ed. (New York, New York, Worth Publishers, 2012), 19. A basic problem, however, is that the circular flow economy that one is asked to imagine does not represent actual economic process. This will become evident by the end of Ch. 3, below. Nevertheless, the circular flow model is a premise for defining and measuring GDP/GNP and related quantities used by economists and nations of the world. See Sec., 4.1, below, "Economic Malpractice."
[6] See Ch. 5, Pt. I and Ch. 10, Pt. II.

> an introductory economics course can be pluralistic in two ways. It can juxtapose schools of economic thought or disciplines in a kind of paradigm tournament. Or, they went on, it can integrate the insights of the different schools of thought and disciplines in a common narrative and related analytical models. Both approaches can be valuable; but CORE takes the second approach because we have concluded that it better equips students to reason analytically and empirically, and come to their own conclusions about problems such as inequality, the future of work and climate change. The FT op ed illustrates CORE's pluralism-by-integration approach with our model of the labour market and the firm.[7]

Notice that in the two ways described, one either juxtaposes or integrates "schools of thought" with "models." Each way effectively blocks the possibility of escaping already established paradigms and methods. What the authors construct, then, is yet another model, "our model of the labour market and the firm."

Economics Actually introduces an approach that overcomes this methodological confusion. It works on the basis of understanding data and verifying facts.[8] How does any particular business actually operate? Where does the money go? How do different goods and services contribute to production and provision of goods and services available to any particular village, town, city or region? In other words, it observes and analyzes measurable quantities such as actual rates of production, provision, and monetary flow, to uncover the *mechanical structure* of economic process essential to understanding any economic event, aggregate of economic events and, for that matter, any economy. The structure involves two types of production and provision and five monetary functions. The second type of production and provision is for the first, and the first type of production and provision is for our day-to-day living. "Let us assume as known what is meant by the term 'standard of living.' Let the term 'emergent standard of living' mean the aggregate of rates[9] at which goods and services pass from the productive process into the standard of living."[10]

The insights in this book, as distinguished from Lonergan's original work[11], fulfill a prior need. They are also a bridge and complementary to Philip McShane's introductory works in economics.[12] Part I, then, gradually introduces the general structure of modern economies and moves toward a practical approach to economic wellbeing.

Chapter 1 focuses on the emergence of the productive process. Notwithstanding the prehistorical setting, the structure revealed is present in all economies.

Chapter 2 goes further and describes two kinds of work and two kinds of goods and services in any economy.

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[7] Wendy Carlin and Sam Bowles, "How to fix university economics courses," *Financial Times,* Jan. 17, 2019.

[8] See John Benton and Terrance Quinn, *Journeyism. A Handbook for Future Academics*, 1st ed. (Toronto: Island House Press, 2022), Preface, 17–35, 37–67, 103–120.

[9] The *aggregate* of rates here and subsequently means all actual rates in the economy.

[10] CWL21, 238. Lonergan's subsequent identification of the term 'standard of living' notwithstanding, its discussion is deferred to Ch. 10. However, the term 'emergent standard of living' is employed throughout, because it refers to measurable rates.

[11] Bernard Lonergan, *For a New Political Economy*, ed. Philip J. McShane, 1st ed., vol. 21, Collected Works of Bernard Lonergan (Toronto: University of Toronto Press, 1998).

[12] McShane, *Economics for Everyone*, 3rd ed., Philip McShane, *Fusion* 2, A Grade 12 Introductory Class in Economics, https://philipmcshane.org/wp-content/uploads/2023/01/Fusion-2.pdf.

Chapter 3 provides a brief glimpse of correct heuristics for two kinds of supply and demand and financial structures in modern exchange economies.

Chapter 4 looks into aspects of contemporary models and financial structures that are inimical to economies, humanity and ecosystems.

Chapter 5 touches on the larger context which includes culture and economics, recovery and the possibility of (ongoing) progress. A short section at the end of a brief introduction cannot go into detail. But it does describe something of the context and provide references for further reading. Part II enlarges on these topics.

Context (Part II)

> We all sense instinctively that something is wrong. But we struggle to put our finger on it.[13]
>
> — David Pilling, Africa Editor for *The Financial Times* (2018)

Part I has established the fact that in any economy there are two main types of production and provision and five monetary functions (surplus and basic supply and demand, and redistributive).[14] It has also brought to light a cluster of errors in current mainstream practice. For instance, the circular-flow model is no more explanatory of economic process than, say, the observation that water runs downhill explains water flow (let alone global water cycles). In practice, the commoditization of money, the profit motive, and the assumption that GDP and stock markets, respectively, are gauges of economic performance, have no normative bearing on the productive process. On the contrary, it is well known that contemporary stock markets operate on principles of investment that frequently "have profound adverse effects on the real economies."[15]

Part of the problem is that the mainstream approach relies on speculative model building.

> Economists build their "toy economies" to help explain economic variables, such as GDP, inflation, and unemployment. Economic models illustrate, often in mathematical terms, the relationships among the variables. Models are useful because they help us dispense with irrelevant details and focus on underlying connections. (In addition, for many economists, building models is fun.)
>
> Models have two kinds of variables: endogenous variables and exogenous variables. Endogenous variables are those variables that a model tries to explain. Exogenous variables are those variables that a model takes as given. The purpose of a model is to show how the exogenous variables affect the endogenous variables. In other words, as Figure 1-4 illustrates exogenous variables come from outside the model and serve as the model's input, whereas endogenous variables are determined within the model and are the model's output.[16]

But how does one know in advance what the "irrelevant details" are, or which aspects of an economy are "endogenous" and which "exogenous"?

Elsewhere, Mankiw reveals further shortcomings in the approach:

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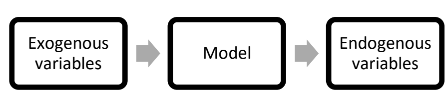
[13] David Pilling, *The Growth Delusion. Wealth, Poverty, and the Well-Being of Nations (New York, New York: Tim Duggan Books, 2018).*

[14] See Fig. I.3.1.

[15] Mitchell, "Financialism," 42. See also Sec. 4.2 of *Part I.*

[16] Figure 1-4 in the textbook is similar to the following diagram.



"Endogenous Variables Model Exogenous Variables. How Models Work. Models are simplified theories that show the key relationships among economic variables. The exogenous variables are those that come from outside the model. The endogenous variables are those that the model explains. The model shows how changes in the exogenous variables affect the endogenous variables" (Mankiw, *Macroeconomics*, 8).

> Let's start with the problem.
>
> There is no simple way to gauge an economy's health. But if you had to choose just one statistic, it would be gross domestic product. Real G.D.P. measures the total income produced within an economy, adjusted for the overall level of prices.
>
> …
>
> So there they are. One sickness, five diagnoses. Unfortunately, I have no idea which one is right. The truth may well involve a bit of each.[17]

Mankiw also observes that there are

> three statistics that economists and policymakers use most often. Gross domestic product, or GDP, tells us the nation's total income and the total expenditure on its output of goods and services. The consumer price index, or CPI, measures the level of prices. The unemployment rate tells us the fraction of workers who are unemployed.[18]

Numerical data for GDP, CPI and employment rates are readily available. But what do they mean? To review, GDP merely represents a total volume in a time period. The CPI indices are average price changes for consumers as defined in mainstream economics. By definition, these quantities are remote from any particular household or firm. Moreover, they do not reflect the fact that there are two flows. And neither GDP nor CPI is explanatory or indicative of any particular economic event.

What, then, is happening in concrete situations? Part II focuses on how actual businesses operate in the productive process.

Chapter 1 draws attention to its structure by observing the operations of a small student-run painting business called QC Painting managed by Quinn and Connor[19] over three summers (1979-1981) in Toronto, Canada.

Chapter 2 provides numerical examples to illustrate monetary functions.

Chapter 3 develops some key features of a modern exchange economy.

Chapter 4 analyzes gross domestic product and similarly defined metrics in greater detail, as well as the problem of economic growth.

Chapter 5 briefly considers contemporary growth models that, among other things, attempt to define economic growth in terms that have little to do with actual process.

Chapter 6 points to the fact that there are certain equilibria[20] in the two-flow structure that are verifiable in economies from primitive to modern.

Chapter 7 explores mechanisms by which an economy moves from one two-flow equilibrium to another.

Chapter 8 explores strategies for moving an economy between equilibria.

Chapters 1–8 assume a "closed economy." Since modern economies trade internationally, Chapter 9 draws attention to the functional structure of international trade.

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[17] N. Gregory Mankiw, "One Economic Sickness, Five Diagnoses," *The New York Times*, The UpShot, June 17, 2016, https://www.nytimes.com/2016/06/19/upshot/one-economic-sickness-five-diagnoses.

[18] Mankiw, *Macroeconomics*, 17–18.

[19] Connor is a pseudonym.

[20] These are not mathematical equilibria as defined in the tradition established by Walras.

Chapter 10 briefly describes Bernard Lonergan's 1965 discovery called "functional specialization."[21] It points to ways in which, through global collaboration, the academy will be able to move toward guiding economics to a future stage in history identified as the positive Anthropocene Age.[22]

[21] Bernard Lonergan, "Functional Specialties in Theology," *Gregorianum*, 50 (1969): 485–505.
[22] James Duffy, Philip McShane, Robert Henman and Terrance Quinn, *Seeding the Positive Anthropocene* (Vancouver: Axial Publishing, 2022).