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# Rethinking the Economy from Ground Up

By *Nicky Pouw*

In the global policy and research debates on inclusive growth and inclusive development increasing emphasis is put on the need to rethink the economy. The expiration date of the neoliberal growth model seems nearly over. False assumptions have led to false policy prescriptions, with detrimental impacts on society and nature. Instead of greater human wellbeing for all, inequality, social-economic, political and climatic risks have increased. Another great concern is that the poorest of the poor are excluded from neoliberal growth, or are at best adversely incorporated. They are not even effectively reached by development interventions.

Both from within the economics discipline and from the outside, new proposals are being put forward to rethinking the economy. These range from encompassing measurements of societal progress, re-orienting the economy towards human wellbeing, towards putting a price on nature, and alternative

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framings of the economy. From an inclusive development perspective, investments in 1. voice and empowerment, 2. social and environmental sustainability and 3. human wellbeing are paramount.

### **The economy is never neutral**

However, these are typically juxtaposed as costly afterthoughts in neoliberal growth models. Only under the condition that there is money left, societies might show benevolent enough to invest in their fellow citizens and in nature on which they depend. Therefore I argue for rethinking the economy from the ground up, starting with redressing its basic premises. To begin with, I define the economy as a socially and politically instituted process of resource allocation, from and to economic agents. This is by far *not* a neutral process. Power inequities twist and turn economic processes and outcomes to the benefits of the rich and better off. The above definition of the economy creates room for integrated power analysis. Neither is the economy a closed, nor a controllable physiological system. On the contrary, the economy is embedded in nature and a socially and politically instituted process, and as such open to influences from outside. The 'economy' is interconnected via sub-systems of internal relations and allocation mechanisms, for example in the form of market mechanisms, reciprocity and redistribution. It consists of structures and layers, but these are temporal and context specific. Cultural values, past and future priorities, play a role in making economic decisions in the presence. Economic agents engage in (more or less) purposeful (not 'rational') behaviour to make economic decisions. As such, economic change is not a series of stable idiosyncratic events, but subject to emergent change, shocks and unexpected events.

### **10 Reasons why economics should change**

Following from the above epistemological premises, I propose a list of 10 reasons why economics should change:

1. Economics has lost touch with the daily realities of people on the ground;
2. Economics is based on a misguided view of the human being. The underlying assumptions are not representative of the human being as a social human being;
3. Economics should be more about human wellbeing, and less about money;
4. The economy is embedded in a constellation of social and political institutions. Their influence on economic processes and outcomes is endogenous;
5. The economy is modelled as if it is a closed and controllable system. However, in reality it is an open process with emergent and evolving features;
6. The economy defines itself as separate from nature. However, in

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reality mutual interdependencies exist between the economy and nature;

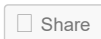
7. The current economic growth model is short-sighted. It overlooks the long term importance of social cohesion and inclusive economy;
8. The current economic growth model prefers growth over stability and overlooks the added value of sustainability;
9. Power is an underestimated factor in economics. The economic analysis of distribution should problematise power relations *sine qua non*;
10. The economy needs new performance indicators. Economic performance should be measured in terms of more than economic growth alone.

Once we see the economy as embedded in society, politics and nature, we can understand the complex interactions between, for example, resource use, nature and the economy, or between empowerment, social cohesion and the economy. Whether economies embark on a degenerative, environmentally unsustainable and exclusive development pathway or a regenerative, sustainable and inclusive one ultimately remains a matter of political choice.

**Nicky Pouw** is Associate Professor in the Governance and Inclusive Development programme at the University of Amsterdam, The Netherlands. She is a development economist with 25 years of research experience on poverty, inequality, gender, inclusive development and economics of wellbeing, notably in African economies. She is Chair of The Broker and author of multiple international peer reviewed books and articles.

**Image** by Sharmin Akther Amy

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