



Need For A New Economic Theory

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1. Search for “The Wealth of Nations” – some basic points on macro-economics

There are thousands of books and articles these days, including political declarations at all levels, particularly in the “developed” countries, invoking “growth” as a basic factor to solve major economic problems such as employment, financial disequilibria, retirement and health costs, etcetera.

The big question is: which growth and how. Is there any major factor to be taken care of, in addition to key issues like economic and political stability, adequate monetary policies, social fairness, education and entrepreneurial spirit, stimulation of human capital and environmental protection?

2. Thinking of Adam Smith

At the end of the eighteenth century, Adam Smith tried to answer very similar questions.

During his times the word “economist” was not yet diffused: he was a social philosopher. And he was concerned about identifying a key event or issue, which could become the priority to promote the “Wealth of Nations”.

He answered the question on what would define the industrial revolution. The new manufacturing systems, of which he had various examples around him in Scotland (starting with the making of a pin), provided the practical evidence.

His book and his experience during the phase of industrialization became the basis for the formulation of “economics”, applicable even today. We should note then that this discipline (and its theories) is clearly derived from this historical experience.

3. ...like Galileo Galilei...

“Nonsense” was the reaction of most “social scientists” of his time (take as an example Quesnay and many others) to the central idea of industrialization. For them, the evidence was that the wealth of nations was based on agriculture. Point!

4. Macroeconomics: “desaparecido”?

There are many economists who in the last decades have admitted that macroeconomics (the general framework of economics) is somewhat deficient. The attraction of the simulation

models has somewhat obscured this issue, as well as the tentatives to absorb the issues concerning the environment and the very fortunate idea of sustainability in the existing dominant theories. But what about the “production” of the wealth of nations?

5. The Value of Services

At his time, rightly, Adam Smith underlined the priority of industrialization, which was in between agriculture (an important sector, but which of course had to improve) and services (depending on “dedicated” people, but with no recognized economic relevance).

The point is that services tend today to provide about 80% of all the “productive” activities. The higher levels of technology, in most cases, become more and more efficient every day and the tools are becoming cheaper. But they require more and more services to conceive, manufacture, distribute, finance, control etc.

Some economists (see those who were involved in the GATT discussions) tried to include in the “normal” economic theory, the evidence of the growth of services, saying that they are simply products that you don’t feel even when they fall on your feet.

In any case, today it must be recognized that good services are the basis for a good and successful “manufacturing” process at all levels.

6. Studying “supply”

Adam Smith was concerned about how to improve, via industrialization, the production process (i.e. “supply”, as it is called by the economists).

“Modern” economics has shifted, since many decades, from supply to demand (consumption). And still thinks mainly in these industrial-age economic terms (among others see the discussions between Krugman and the “mellonites”). In fact the advances in science and technology have provided the economists with the idea that supply should be elastic enough and that the key is to mobilize or manipulate demand. By the way, this argument was the background of the bitter attacks against the Club of Rome report of the 1970s on *The Limits to Growth*.

But since then, the “traditional” economic growth, in the industrialized countries, has diminished – with many ups and downs – so that 1% or 2% growth of GNP seems a great achievement in the western world, and this even in a world of extended “quantitative” easing.

So, what about reviewing the conditions of supply, of producing wealth today?

7. The Growth of Services and Economic Value

Supply today starts with fundamental research (and its serendipity: the search for discoveries not yet known). And then goes on with applied research and technology, up to a period of utilization of any system or “product” (which can be a service), and a final phase of waste treatment.

Here is where the notion of economic value is linked to the notion of risk management in time (at least part of the value is linked to the future).

Uncertainty and probability are the rules of the game (a little like going from Newtonian physics to Quantum physics). The economic value depends largely on the period of utilization, which also includes costs. At the beginning of the whole process, research is also based on managing probabilities, as well as market success, maintenance and security up to disposal costs. Value is necessarily linked to the notion of performance (in time). Entrepreneurs know this.

We are therefore pretty far from the ancient classical model of value, based on the “equilibrium” between supply and demand in a given moment in time.

There is then a strong need to redefine economic value, to better understand what produces the Wealth of Nations. Indicators have to be adapted: otherwise, why is it then that GNP improves when there are costs linked to disasters? The war in Syria is obviously not a blessing: who or what measured the actual losses of the civil war?

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