**Erich Hoedl First Version**

**PROBLEMS WITH CONTEMPORY ECONOMICS – THE NEED FOR A NEW ECONOMIC THEORY**

**Introduction:** ***Contempory economics have a few basic deficiencies: (a) They have no coherent links to the society, (b) the methodology is mainly rationalistic and not evolutionary and (c) the analysis is capital-oriented and not human-centred and (d) they are lacking awareness of economic and societal history.***

***Influencial economists are aware of the societal implications of their theories, its historical role, the limits of rationalistic and capital-oriented arguments. It is above all the value system behind contempory economics, which results in the mentioned deficiences. The tacit values leads to the conservative orientation of economics and they do not allow future-oriented solutions in a rapidly changing world. Therefore, it exists a vital need for a New Economic Theory (NET).***

***We will discuss shortly the following subjects of economic theory: (1) The turn from political economy to economics without explicit societal questions, (2) the degradation of economic development to economic growth, (3) the degradation of production to physical concepts instead of a societal processes, (4) the downgrading of labour to a source for income and consumption and (5) confining economics to nation-states, exculding largely globalisation.***

***We will refer to each of these five items and to some modifications during the last few decades, which demonstrates the uneaseness with contemporary economics. Finally, we will roughly enumerate some critical points, which should be observed in the development of a NET.***

**1.Political Economy and Economics**

**Smith, a moral philosopher, developed a political economy against Physiocrats and included many societal dimensions of the emerging industrialim, including the important role of work.**

**Ricardo developed“ iron laws“ of distribution and stripped-out societal questions. The marginal revolution turns to the consumer and proclamed stability without referring to stocks.**

**General Equilibrium Theory confirmed it mathematically, which is the basis for neoclassical theory, which is sociologally enriched by Neoliberals, but all neglect the instability and openess of economic development.**

**Keynes`s detected instabilities and his remedy was state intervention. Post-Keynesians question income distribution and the role of money, but exclude again largely the capital stock.**

***Critical Points:*** **Embedding economy in the society, defining instabilities and openess, role of distribution of stocks.**

**2. Societal Development and Economic Growth**

**Investigations on economic development are mainly reduced to formalistic theories of economic growth. They concentrate on stylised facts and „golden ages“, which strip-out not only societal, but also many economic variables, like the distribution of wealth.**

**In the tradition of former institutionalists some theories of economic development tackle societal aspects and threads of stagnation, but they intend to increase welfare by higher demand and/or higher capital inputs and economic growth.**

**Emerging ecological and social limits of economic growth led to the discussion of qualitative growth and to concepts of a socio-ecological market economy. And increasing financial instabilities turn the focus to financialisation and its burden on the real productive sector.**

**Investigating economic and societal development needs historical research, which is neglected in economic theory. Beyond some concepts of stages of economic development historical analysis would sharpen the understanding of transformational periods were new concepts of economic analysis are needed.**

***Critical points:* Formalistic reductionism versus open development, limits of nature, financialisation and characteristics of transformation periods.**

**3. Wealth Creation and Physical Production**

**Societal wealth creation has since long been downgraded to the „combination“ of capital, labour and technical progress, which are understood as physical quantities and could be substituted by price relations. In contrast, it is societal innovation, which the driver of new „combinations“.**

**Institutional approaches by way of transaction costs, property rights and principle-agent relations consider wealth creation as a more social process, but ultimately for enhancing firm`s economic success. They admit that the“ human factor“ gains consideraly in importance and employees should strenghten ist entrepreneurial behavior.**

**What is not discussed is the property of capital inputs, the - although softened - efficiency targets of firm`s organisational structures and the values of optimising economic return, highly influenced by financial markets.**

**Such microeconomic theories are – in contrast to management theories – rests on mathematics and have been transmitted to macroeconomics, which intend to derive economic welfare from GDP and neglect the structural changes of the society and economy.**

**We may roughly distinguish between the formal private, the public and the alternative sector. Prevailing macroeconomic theories analyse only the private sector and suppose a homogenious economy and as far as structural changes occur they are derived from price substitution.**

***Critical points:* Definition of capitals as social categories, role of management theories, indicators for firm`s successes and interdependencies between creativity and productivity.**

**4. Human Creativity and Consumerism**

**The ultimate target of mainstream economics is consumption and work is the burden to be borne for it. Work is not considered as a potential activity for the fullfilment of live. It overlooks the possibility to give work a value for itself and to unfold its creativity and productivity for the society.**

**To alleviate the burden of work economics aim at higher traditional efficiency of production of consumer goods, i.e. less capital inputs per unit of consumption goods. Moreover, it amerliorates working conditions by more humanised production technologies. But these adaptions are still capital-centred.**

**At the same time consumption should be augmented by higher economic growth, neglecting the decreasing „marginal utility“ of increased consumption and its social and ecological limits. Far-reaching marketing undermines consciousness of irrationalistic consumerism.**

**To reduce consumption would also reduce work for consumption and give more room for societal activities. This would allow a better work-life balance were wellbeing is derived from consumtion and also from meaningful work.**

***Critical points:* Specification of consumerism, societal role of marketing, oligolistic structures in trading and role of the alternative sector.**

**5. Globalisation and Nation-State Economics**

**Prevailing economics are strongly oriented towards the nation-state. International relations in trade and finance are partly integrated, but they are mainly treated from the perspective of one or a few countries. Economics have inherited such a view from early stages of industrialism.**

**Present globalisation is still seen as a competition between national economies. They gain or lose in the real sector according to its competitive advantages and economies of scale and in the financial sector according to the strenght of currencies. By this, globalisation increases economic growth.**

**In face of the global limits we have – without neglecting the national economies - to turn to a global perspective with competition and cooperation. Approaches for a theory of the world economy should follow „co-competition“ and concentrate on equalising welfare.**

**Global human development is bound to a redistribution of societal power between industrial and less industrial countries, a taming of financial markets, a socio-ecological transition of the real sector, an enhancement of democratic governance and above all a strenghtening of social capital by human-centred education**.

***Critical points:*** **Conceptualisation of economics for the global economy, strategies of development of less industrialised countries and formation of the global social capital.**