

DEFINING ECONOMICS

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ABSTRACT

The contemporary definition of the word economics focuses on the concepts of scarcity and constrained choice. This paper questions whether this is an appropriate way to introduce students to the study of our discipline. Beginning with the Greek origins of the word, the meaning of economics is traced through the definition given by seminal contributors to the field, up to contemporary writers. The paper concludes that a reversion to earlier definitions of the subject might be preferable from a pedagogical standpoint.

INTRODUCTION

Since its origins in the early Greek and Sanskrit languages, the word “economics” has been used to define a variety of activities, and its definition has undergone an evolution in meaning. This essay shows how the use of the word has changed over time, and questions whether the current definition adequately conveys an accurate description of the social science known as economics.

ORIGINS AND EARLY USAGE

The Greeks invented the word *oikovouikia*, which combined two words with Sanskrit roots. These are *oikos*, meaning house (or any other kind of dwelling), and *vomos*, which means custom or usage. A related word, *nomos*, comes from *vemu*, which meant possess or manage. Thus, the earliest use of the term that came to be “economics” referred to household management. (This, and what follows in the next paragraph, comes from Liddel and Scott and Lewis.)

By the 5th and 6th centuries, the Greeks were using the word *oikonomia* to indicate the management of an estate. This usage can be traced back to Plato and Aristotle, who used the word to imply something similar to “how we do things at home.” Plato also uses the word *oikonomikos* as the opposite of *politikos*, and this was also the title of Xenophon’s essay on the duties of domestic life. For these Greek thinkers, managing the household was somehow the antithesis of politics. The Romans carried both of these early words for economics over into Latin, with Cicero’s use of both being the earliest recorded citation.

The word “economy” comes into written English in the late 14th century, as a word to describe household management. The applicability of the word to its current meaning does not arise until much later. With the word “political” appended to the front of economy, the meaning changed from household management to a meaning that encompassed a much broader scope, i. e. to manage the economy. This is how Adam Smith used the term in 1776:

Political economy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects; first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign. (Book IV, 1776, p. 138)

For Smith (1776), the goal of political economy was to direct the economic system towards achieving national wealth. It meant more than simply managing the economy, it implied managing the economy well. Given Smith’s interests and reasons for writing *Wealth of Nations*, his definition would seem to fit the task he undertakes.

Writing several decades later, David Ricardo (1911) alters the goal of political economy in a manner that focuses its purpose on the allocation of wealth. He writes: “To determine the laws which regulate the distribution (of the produce of the Earth to rent profits and wages) is the principal problem of political economy.” (p. 1) For Ricardo then, the purpose of engaging in political economy was to study distributional issues.

In his principles book, which was published three years after Ricardo’s, Thomas Malthus does not provide an explicit definition of political economy, but he has much to say regarding the nature of the discipline. While acknowledging that “the conclusions of Political Economy partake more of the certainty of the stricter sciences than those of most of the other branches of human knowledge,” he concludes that “the science of political economy bears a nearer resemblance to the science of morals and politics than to that of mathematics.” (p. 1) Malthus (1964) further notes:

The science of political economy is essentially practical, and applicable to the common business of human life. There are few branches of human knowledge where false views may do more harm, or just views more good. (p. 9)

Of course, most know that Malthus' work led Carlyle to refer to economists as "the dreary professors of a dismal science," but this was due to his conclusions regarding the plight of the poor and its implications, such as "we should make the streets narrower, crowd more people into the houses, and court the return of the plague." When it came to the scientific study of political economy, Malthus was a bit more optimistic.

While Malthus avoided any explicit definition of political economy, John Stuart Mill took the opposite approach. In addressing the subject of inquiry for political economy he states:

That subject is Wealth. Writers on Political Economy profess to teach, or to investigate, the nature of Wealth and the laws of its production and distribution: including, directly or remotely, the operation of all the causes by which the condition of mankind, or of any society of human beings, in respect to this universal object of human desire, is made prosperous or the reverse. (p. 1)

A popular treatise on economics, that went through five editions during the mid-1800s, was by John R. McCulloch. In it he offers this definition:

Political Economy may be defined to be the science of the laws Which regulate the production, accumulation, distribution and consumption of those articles or products that are necessary, useful or agreeable to man, and which at the same time possess exchangeable value. (p. 1)

This statement appears in the section on “Production and Accumulation of Wealth,” and it seems to parallel the meaning of economics, as offered by Alfred Marshall, in his popular textbook. Marshall writes:

Political Economy or Economics is the study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well being. Thus it is on the one side a study of wealth; and on the other, and more important side, a part of the study of man. (p. 1)

The above definitions, offered by the seminal writers of their time, demonstrate that the subject of political economy, or economics, was considered to be, on the one hand, the study of wealth, and the laws that produced it, and, on the other, the study of human actions.

Later writers of the early 20th century continued to tie the definition of economics to wealth. Typical of textbook definitions were: “Economics is the science which deals with wealth in its most general aspect; namely its value aspect,” (Johnson, 1922. 9) and

Political Economy (economics is the same thing) is the science of wealth. It is the study of how men produce the things they need, divide them, exchange them and use them. (Mitchell, 1932, 3)

MODERN DEFINITIONS

Beginning about this time, the definition of economics began to change more toward the familiar manner of today’s usage. The reasons for this change are unclear, though there were both internal movements and external events that may have been influential. Externally, there was the first world war and the Great Depression, while internally, as Schumpeter (1954) has noted, there was a great accumulation of statistical facts, the development of dynamics, and a new relationship between economic theory and statistical methods. (p. 1146)

For whatever reasons, the definition that economists gave for their field began to change during this time period. In a 1939 text, Bruce Knight offered what might be considered a bridge between the old definition and what was to come:

Economics is the study of social economy with respect to wealth.
 . . Things which are scarce, in the sense that people will make sacrifices to get or keep them, come to have value. Valuable things are wealth . . . (p. 11)

But the use of “wealth” as an object of inquiry was rather quickly abandoned by the end of the second world war. Textbooks published in 1947 and 1948 defined economics as: “the study of the problems that men face in their attempt to satisfy numberless wants in a world of scarcity,” (Waugh, 1947, 9) and “the social science that describes man’s efforts to satisfy his wants by utilizing the scarce means provided by nature” (Gemmill & Blodgett, 1948, 3).

The definition of economics was thus transformed during this time from the study of wealth to the study of scarcity. These are some of the modern definitions that we are accustomed to:

1.	“The study of how people choose to use their scarce resources in an attempt to satisfy their unlimited wants” (McEachern, 1997, 2).
2.	“The study of how people allocate their limited resources to satisfy their unlimited wants” (Miller, 1997, 5).
3.	“The science of scarcity . . .” (Arnold, 1996, 6).

Several other contemporary texts do not provide a definition of economics, per se, but the introductory remarks clearly demonstrate that the focus is on scarcity. McConnell and Brue (1996), in their section, “The Economic Perspective,” note that “outputs of goods and services must be scarce or limited, and scarcity limits our options and necessitates choices.” (p. 9) Similarly, Gwartney and Stroup begin their discussion of “What Economics is About” with a subsection called “Scarcity and Choice.”

While the actual focus of economic inquiry, in many respects, has changed very little since the time of Adam Smith, the way we have defined our science seems to have been altered significantly. Where human action was once portrayed in a manner that highlighted the wealth creating aspects of these actions, it is now described as limited and constrained.

Some introductory textbooks do offer alternative definitions to those that focus on limits and scarcity. Tregarthen defines economics as “the study of how people choose among the alternatives available to them,” while Gottheil (1996) offers:

Economics: The study of how people work together to transform resources into goods and services to satisfy their most pressing wants, and how they distribute these goods and services among themselves. (p. 6)

Similarly, Colander (1995) gives us: “The study of how human beings coordinate their wants.” (p. 7) From these three definitions we are given differing foci on either choice, cooperation and distribution, or coordination. But none of these return the definitional focus to wealth or productive management (the earlier meanings).

In contrast to the mainstream texts, authors associated with the modern Austrian School have directed the definition of economics toward individual action. Mises writes:

Economics is . . . the theory of all human action, the general science of the immutable categories of action and of their operation under all thinkable special conditions under which man acts. . . . Economics is not about goods and services; it is about human choice and action. (Mises, 1966, 266 & 494)

And Rothbard adds:

Economics, therefore, is not a science that deals particularly with “material goods” or “material welfare.” It deals in general with the actions of men to satisfy their desires, and, specifically, with the process of exchange of goods as a means for each individual to “produce” for his desires. (Rothbard, 1970. 141)

Focusing on other aspects involving the study of economics, beyond the scarcity constraint, would not appear to be necessarily inappropriate. Julian Simon (1981) has gone to great lengths to demonstrate how the concept of scarcity is overstressed and not particularly relevant from a policy perspective. In *The Ultimate Resource*, he maintains that “a key sign of what we generally mean by scarcity (is) a price that has persistently risen.” (p. 17) Yet, the price of most resources that might best fit the economist’s definition of scarcity appears to have fallen. He goes on to show how temporary shortages have led to technological advancements that ultimately resulted in lower, not higher, prices. (pp. 43-46) This point is reiterated in *The Resourceful Earth* where Simon and Khan (1984) demonstrate that:

Throughout history, individuals and communities have responded to actual and expected shortages of raw materials in such fashion that eventually the materials have become more readily available than if the shortages had never arisen. (p.6)

Over time, Simon (1981) has made a persuasive argument that counters extreme views towards resource depletion. The policy implications that result from his analysis (*laissez faire*) are much more in line with mainstream economic views than those of his opponents, who call for (often draconian) increasing state intervention. To the uninitiated, however, the focus of economics, as it is currently defined, would appear to support policies of active intervention.

CONCLUSION

The principles of scarcity and constrained choice are obviously valid and important concepts in an introduction to, and a study of, economics. What is not obvious is the need to include these limiting aspects of economics in the definition of this, potentially optimistic social science. An understanding of the power of incentives and the virtues of prudence and productivity has led to the creation of an

economic system that generates vast amounts of wealth. As was the case historically, the definition of economics should demonstrate this.

I would like to propose the following definition:

“*Economics* - - the science that studies wealth, hope, and prosperity.”

Wealth ties the definition to its historical roots and the traditional subject of inquiry. Hope is what economics represents for all those who seek a better life. Prosperity is what results when the subject is properly understood. While this might not say it all, it would seem a good place to start a discussion of alternative definitions.

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