

# A NEW LEFT ECONOMICS

*This page intentionally left blank*

# A NEW LEFT ECONOMICS: AN ECONOMY WITH A SOCIAL CONSCIENCE

BY

**PHILIP VON BROCKDORFF**  
*University of Malta, Malta*

AND

**JONATHAN SPITERI**  
*University of Malta, Malta*



United Kingdom – North America – Japan – India  
Malaysia – China

Emerald Publishing Limited  
Emerald Publishing, Floor 5, Northspring, 21-23 Wellington Street, Leeds LS1 4DL.

First edition 2024

Copyright © 2024 Philip von Brockdorff and Jonathan Spiteri.  
Published under exclusive licence by Emerald Publishing Limited.

**Reprints and permissions service**  
Contact: [www.copyright.com](http://www.copyright.com)

No part of this book may be reproduced, stored in a retrieval system, transmitted in any form or by any means electronic, mechanical, photocopying, recording or otherwise without either the prior written permission of the publisher or a licence permitting restricted copying issued in the UK by The Copyright Licensing Agency and in the USA by The Copyright Clearance Center. Any opinions expressed in the chapters are those of the authors. Whilst Emerald makes every effort to ensure the quality and accuracy of its content, Emerald makes no representation implied or otherwise, as to the chapters' suitability and application and disclaims any warranties, express or implied, to their use.

**British Library Cataloguing in Publication Data**  
A catalogue record for this book is available from the British Library

ISBN: 978-1-80455-403-6 (Print)  
ISBN: 978-1-80455-402-9 (Online)  
ISBN: 978-1-80455-404-3 (Epub)



INVESTOR IN PEOPLE

# CONTENTS

1. Introduction	1
2. Failure of Standard Models	7
3. Adjusting the Standard Model to Meet the Challenge of the Green Transition	25
4. Unleashing Social Enterprises	59
5. The Role of Trade Unions and Collective Bargaining	65
6. Concluding Thoughts	95

*This page intentionally left blank*

## INTRODUCTION

It's an interesting time to be an economist. The spiralling cost of living across the world has dealt a hammer blow to many families and workers already reeling from the after-effects of COVID-19 and the assorted socioeconomic, psychological and emotional havoc that ensued. At the same time, endemic wealth inequalities are becoming even more apparent and entrenched as social mobility grinds to a halt, with millions of jobs increasingly at risk of being lost due to the inexorable rise of digitalisation and automation, which will over the coming years also put several white-collar jobs at risk as AI develops further. All this without even mentioning the green transition that economies are supposedly undergoing as we shift towards more environmentally friendly and decarbonised work practices or business models in a belated last-ditch attempt to stem the rising tide of climate change, which will have further knock-on effects on lives and livelihoods.

So clearly, there's plenty on economists' plate, even if AI does take over some of our more mundane tasks (which, some might argue, constitutes the entirety of our work). But I often get asked this question, typically after a few rounds of drinks during Christmas parties: what is it that economists actually do? Because, and this is the typical statement that follows up this question, it seems like the landscape of modern-day economics is littered with high-profile failures to spot any potential signs of economic peril, be it the cost-of-living crisis, which was boldly and repeatedly described as 'transitory' by several leading luminaries within the field. Or even the 2008 financial crisis which seemed to catch everyone off guard, and the mixed policy response therein, which included several rounds of printing money, christened as 'quantitative easing' to avoid the public embarrassment of enacting a policy that literally every single person has thought about at some point in their lives as the solution to global ills, only to be shot down by, you guessed it, economists.

Our brand has, to put it mildly, taken a bit of a hit in recent years, much like Volkswagen in the wake of their emissions scandal, or Manchester United in the wake of, well, everything since May 2013. And it's entirely understandable – after all, if mainstream economics cannot spot looming economic issues, despite spending millions on the development of various sophisticated prediction models, or even prescribe the right course of action to limit the downside impacts of such events, then what is the point of it all?

And this, really, was the launchpad that got the ball rolling on this book. As economists and academics, we've both been grappling with these enormous, somewhat existential, issues at least for the last 15 years. We have read voraciously in this time, across multiple disciplines, seeking an elusive answer to our quandaries, or something that could assuage our doubts. We've sat through countless seminars and workshops to really understand what modern economics was all about, often left scratching our heads at the inanity of the modelling assumptions made, and despaired at the sight of grown adults arguing over the values of  $\alpha$  and  $\beta$ . We've had open and frank discussions with several leading global economists from across the political spectrum, both in academic settings as well as at the EU level as part of our work with the European Economic and Social Committee (EESC). Needless to say, we've also been discussing these ideas between ourselves on an almost continuous basis since 2017, be it at university, on airport buses and over Zoom, typically followed by more important discussions surrounding the relative merits of various audiophile equipment, or the state of English football today (which could easily be the topic of our next book; but we digress).

Initially, we struggled to organise our thoughts in a cogent manner, because while we are fully aware of the issues surrounding our dismal science, we are also completely convinced by its utility and the incomparable set of skills that it encompasses, powerful analytical tools that enable the initiated to tackle a plethora of real-world issues from climate change to poverty and create lasting, meaningful change. Nothing can quite match economics when it comes to the breadth of its reach, which is perhaps why it is such a fascinating subject, and possibly such a source of frustration to non-economists. For us, economics is not a subject or a discipline, but rather a way of life, impacting all of our decisions and driving much of Earth's history, from the fall of the Roman Empire to the collapse of the Berlin Wall. And yet, it seems as though modern-day economists are struggling to understand it or harness its potential to alleviate real-world problems and issues, comfortably instead of hiding behind increasingly abstract journal papers and mathematical models.

In the end, a simple realisation broke the impasse, one which led us back to the very beginning of our economics journey and, literally, the first page of

a secondary school economics textbook. Therein lies the key: economics is a social science, or so we were told, and to be honest we can't remember our 14-year-old selves being too impressed by this assertion. Yet now, it made a world of difference. For the last few decades, economists have focussed obsessively on the 'science' part of that description, possibly fuelled by an inherent inferiority complex that we have relative to the hard sciences and immortalised in the annual Nobel 'memorial' prize for economic sciences. Mainstream economics has therefore leaned heavily into mathematical modelling and statistical analysis in an attempt at making economics more 'rigorous', borrowing ideas from physicists and engineers to further go down the science rabbit hole. Economics, we are told, is a positive science that simply seeks to describe, predict and explain economic phenomena, and what better way to do so than with complex mathematical models? To be clear, we are wholeheartedly in favour of using maths and statistics as part of economic analysis, since they add richness to our arguments and enable formal testing of ideas. However, mainstream economics has done this at the expense of the first word in that description, namely 'social'. Economics is a *social* science; there is no way around it, since economic activity is driven entirely by people from all walks of life. It is utterly pointless to develop complex models mimicking the movements of liquid or gas molecules in fluid unless you can somehow relate these to real-world human interactions. Indeed, if anything the starting point should be a thorough observation of people's behaviour, followed by the creation of a suitable mathematical model to replicate these actions, not the other way around. And yet, economics is largely stuck in this stasis where the sovereignty of mathematical and statistical models reigns supreme in many (not all) cases. It should therefore surprise no one that economics is losing its touch in terms of its ability to not only detect looming economic issues, but crucially to deal with them effectively, since these both require the social side to come into play.

This was the launchpad we needed to start putting pen to paper on this book; a conviction that economics needs to return to its social roots, echoing its origins as an offshoot of political science and moral philosophy. This entails much more than simply accounting for and monetising social impacts from various policies or projects, as is typically already done as part of standard Cost-Benefit Analysis (CBA). Rather, this entails stepping outside our positive comfort zone and moving towards the normative side, to devise economic policies and programmes that envisage where we would like to go as a society and economy. Such normative thinking is borderline blasphemous in economics. The joys of positivism are espoused to us right from the get-go, since practically the first economics lesson that we attend. However, we have

to acknowledge one simple truth: an overreliance on positive economics and math has led us down this questionable path, with growing questions regarding the whole profession's point. And let's be clear – we also firmly believe that economic analysis should be fact-based and objective, there's no question about it. As this is the crux of the matter, it must be guided or directed by solid principles rooted in social justice and the betterment of societal welfare which, incidentally, is also one of economics' key goals.

Now, this might sound extremely jarring to passing readers and even casual economists. Isn't economics obsessed with the sovereignty and sanctity of free markets, guided purely by the actions of self-interested economic agents and prices? Isn't economics inexorably linked to rampant capitalism, deregulation, privatisation and self-governance, devoid of any societal goals other than profit maximization? At best, it's suffered from bad press and poor marketing (it's so easy to make the jump from economy to free markets); at worst it reflects how the discipline has been hijacked by a decidedly mono-perspective faction, hiding behind a veneer of objectivity where the end goal is an elegant proof or complex system of equations rather than any social goal. Well, here's the thing: economics, at its fundamental core, is not and was never meant to be like this. First of all, even though mainstream economists love the free market, this devotion springs from their belief that free markets are the key to maximum social welfare, where both producers and consumers enjoy the spoils of commerce. Indeed, this pursuit of social welfare is a key tenet of economic thought, a pursuit that has somewhat fallen by the wayside over time, at least in a practical sense. Let's talk about Adam Smith, the acclaimed godfather of economics whose name will forever be associated with the invisible hand of the free market. An unlikely ally, you might think, in the development of an economy with purpose. And yet, the godfather himself, in his much quoted but rarely read magnum opus *The Wealth of Nations*,<sup>1</sup> explicitly highlights the importance of justice beyond the limited confines of what is legal, while continuously arguing that a country's prosperity is directly linked with the welfare of its citizens. Or how about David Ricardo, whose work on comparative advantage sowed the seeds for modern-day globalisation and free international trade – he's something of an idol to socialist economists, arguing that the value of a good is determined by the labour input spent on its production, with these views also heavily influencing his work as a Member of the British Parliament. And of course, there's John Maynard Keynes, the bedrock of macroeconomics, and one of the strongest proponents of the welfare state. There can be no doubt – economics is a social science, we've just lost touch with the 'social' part.

Finally, having sharpened our thoughts and obtained a much clearer picture of the current state of play, we decided to move ahead with the project. So why ‘left’ economics, when all economics is supposedly concerned with social welfare? Our focus on the left stems not from any distaste or disregard for conservative or right-wing policies; we are all for a pluralistic discipline with lively, albeit civil, debate. Rather, this is due to two main reasons: (1) to be upfront from the very beginning and avoid fence-sitting, and (2) to illustrate how universal ideas that have traditionally been considered to be ‘left-wing’ can lead, in our view, to a more equitable and comprehensive attainment of social welfare goals. A large part of this is because, as any economics undergrad can tell you, markets don’t always work properly; in fact, they fail and falter all the time, across multiple industries and contexts, from the concentration of market power to the generation of carbon dioxide emissions. In such situations, a strong and decisive government together with civil society organisations like trade unions, employer associations, NGOs and social enterprises, are essential as a system for market failure correction. Secondly, we also believe that the principal economic challenges of our time require a more social-forward approach and have clear societal targets, including the rising costs of living, the emergence of AI, and climate change, with mainstream economics playing a regrettably central role in the creation of this issue in the first place. This book is thus aimed at providing a new perspective on economics, rooted in its origins, and presents a potential way forward to ensure that socially driven economics is relevant and valid in an increasingly divisive societal context.

We hope that you enjoy this book and would like to extend our heartfelt thanks to the plethora of colleagues, fellow academics, economists, trade union representatives and social partners who in some way contributed to the ideas developed in this book.

#### NOTE

1. Smith, A. (1776). *An inquiry into the nature and causes of the wealth of nations* (Vol. 1, 1st ed.). W. Strahan. ISBN 978-1537480787.

*This page intentionally left blank*

## FAILURE OF STANDARD MODELS

These are uncertain times indeed. Ensnared in the comfort of my home study, I frequently find myself ruminating about the state of the world and the impact recent events are going to have on the future. I always find myself circling back to two questions in particular: one is the global effects of the most recent pandemic in history. Could this crisis which affected so many businesses and so many workers have been avoided? Do economists bear any responsibility for not predicting a global pandemic and its devastating economic effects?

Though there is no easy answer to these questions, the weight of their impact cannot be overstated or ignored. If economists could not be relied upon to predict the financial crisis in 2008 and the COVID-19 economic crisis, what is the point of economics as a science? If we cannot utilise our field of study for the practical benefit of society in times of crisis, one must necessarily wonder if the field itself has grown overly abstract.

The answer is not so simple. The solution to avoiding such failures in the future is the integration of an alternative science that attempts to predict crises far more accurately than economics. This may be true, and as an economist, I would be the first to stand my ground and defend the science that is economics. I shall, however, do nothing of the sort. Instead, I shall refer to the lessons history has taught us over the years and illustrate why in some cases at least, rather than economic modelling, economics is often better practiced and applied by learning from history and shaping economic policy based on the lessons drawn from history itself. Though economics is in a state of perpetual evolution, George Santayana's old truism 'Those who do not learn from history are doomed to repeat it' bears poignant relevance to the situation in which we find ourselves today.<sup>1</sup> By studying economic history and understanding how economies have evolved, we can begin to fathom the fundamental weaknesses of the global economy and the risks that threaten its very foundations.

## RECENT DEVELOPMENTS AND A CHANGE OF EMPHASIS

One of the main challenges the EU is facing is inflation, which has led to a debate about the role of the state in tackling this issue. On one hand, governments have in the main been weak in confronting this burgeoning crisis and limited in addressing supply-side constraints. The left economics has in the main tended not to focus on supply-side issues, a failure which has served to undermine the relevance of left economics in policy analysis. However, with the price of crude oil topping \$95 a barrel at the time of writing, this rise threatens to push up petrol prices at the pump, undermining efforts to bring down inflation. For the EU, oil accounts for almost 35% of the EU's energy needs.<sup>2</sup>

This raises the question, what is the objective of left economics in a rapidly changing economic environment? In our view, the focus on the supply side is just as necessary as any analysis of distribution. It is high time left economics put the question of a change of emphasis on its part on the table. Those on the left have focused much better on distribution than on output. By leaving the discussion about the material means of production to those on the right, this has left the crucial framework of this agenda to the representatives of capital. The left must gather its courage and boldly tell its constituents the whole truth, even if this includes things they do not want to hear. As things stand, left economics has been reduced to the subsidiary role of filling in the blanks with a tendency to regard productivity and competitiveness as dirty words and often not featured in the analysis.

The consequence of this is seen in the scale and trajectory of the 'output gap' between the EU and the UK on one hand, and the US economy on the other.<sup>3</sup> The contrast could not be starker. Whereas the EU position has deteriorated from being 10% ahead of the US in pre-Lehman's 2008, the US is now generating one-third more than EU and UK combined and 50% more than the 27.<sup>4</sup> The most frightening aspect is not these figures themselves, but their trajectory. This means that the EU and the UK are well on the road to becoming poor relations and rules takers rather than rules makers. If this continues in the current direction, the future of the European Social Model will become unsustainable, and most particularly and worryingly its pension and health care promise as the population ages.

To a considerable extent, we are speculating as to the reasons for this dramatic reversal of the rankings because there is not much reliable commentary in the academic literature. Alan Tooze has done work and published an article on this connection, but this is an isolated case.<sup>5</sup>

There are some obvious culprits. Most significant among these must be the contrast in the response of the Federal Reserve Bank and the Obama administration to the economic collapse of 2008, against the austerity agenda of the