Chapter 12: Applied Economic Theory

Chapter Outline

I. Introduction
   A. Definitions
      1. Economy – derivation from Greek term meaning “skilled in household management”
      2. Current definitions include “study of the use of resources to satisfy wants” and “framework for the analysis of the dynamics of economic processes”
   B. The study of economics is critical. Humans must obtain life necessities to survive, and economics helps us understand how goods and services are provided to ensure survival

II. Related Dialects, Associated Schools of Economic Thought
   A. Variations by scope
      1. Microeconomics focuses on small scale economies like family and social work businesses
      2. Macroeconomics focuses on the study of a nation’s economy and other large scale economic processes and issues
   B. Social exchange theory is a middle range theory of exchange processes and mechanisms
   C. Other variants
      1. Classic economics refers to ideas by Smith, Ricardo, and Malthus about income distribution and other economic topics; conceives of people as rational calculators motivated by self interest
      2. Neoclassical economics builds on and expands classic economics, dominant approach currently
      3. Institutional economics studies economic processes and patterns as part of larger social and cultural contexts
      4. Keynesian economics focuses on the use of government economic action to stabilize weak economies
      5. Newer economic frameworks include rational choice theory and socioeconomics
   D. Philosophy of utilitarianism asserts that the value of a decision depends on its usefulness; policies and programs should bring about the most pleasure or good for the majority

III. Applied Economic Theory: Exemplary Models
   A. Adam Smith is the founder of modern economics, theorized about the “invisible hand” as a natural and desirable process of economic coordination
   B. John Maynard Keynes challenged neoclassical theorists and their approach to the Great Depression by arguing that government intervention was necessary under certain circumstances to stimulate the economy
   C. Jane Addams was an economic reformer who advocated for public investment and criticized the powerful businessmen who sought wealth without social responsibility; advocated for economic policies that would benefit the poor and workers
   D. Harry Lloyd Hopkins was a social worker who served as an adviser and administrator for President Franklin Roosevelt, promoted legislation that created jobs and provided public relief
IV. Applied Economic Theory: Root Metaphors

A. The social environment is like a marketplace
   1. Economic markets are places for buyers and sellers to exchange goods and services
      a. Can be a physical or in virtual space (web-based)
      b. There are various types of markets (labor, housing, etc)
   2. Society is like a marketplace
      a. Members are connected by exchanges, and try to profit over others
      b. Money is the major medium of exchange
      c. Policy making considers rational choices (cost-benefit analysis of policies relevant to welfare recipients, for example)
      d. Social work organizations may be not for profit or for profit but all are affected by market dynamics (must attract customers, sell services, compete with other organizations). Social work organizations negotiate “deals” with clients

B. The person is like a buyer and a seller
   1. People are like calculating machines: weigh risks, costs, potential gains and calculate ratios
   2. People pursue self-interest
   3. People act on the basis of rational calculations of the most profitable course of action
   4. Each person invests and manages a personal economy (tangible and symbolic resources) wisely or poorly; considers opportunity costs, develops investment portfolio (for allocation of time, money, energy, material goods)
   5. People are like accountants appraising exchanges with others by loose (for family) or tight (for non intimates) standards regarding giving credit and allowing debt
   6. Many social work clients are poor with few resources, few investments, little financial expertise. They have many exchange problems compared to rich people

C. The social worker is like a business consultant and sympathy broker who
   1. Offers expertise in cost-benefit calculations to micro and macro size client systems
   2. Use tools of economic analysis to consider “externalities”
   3. Engages in social marketing of programs (considers target markets, customer needs, “branding” and marketing plans)
   4. Monitors and tries to change the allocation of sympathy credit to vulnerable populations; social workers are sympathy brokers who address issues of over invested or under invested sympathy, of society’s sympathy logic, and of sympathy margins

V. The Core Assumptions of Applied Economic Theory

A. Markets have common characteristics and operate according to certain rules.
   1. Markets are competitive
   2. Exchange decisions are based on information about goods and products
   3. Market are open to all buyers and sellers
   4. Property rights are protected
   5. There is some degree of trust between seller and buyer

B. Government policies influence the economy. There is an optimal degree of regulation of an economy
1. In an unregulated economy or pure capitalism: no government regulations
2. In a centrally planned economy: almost complete regulation by government
3. In a mixed economy: role for government involvement and regulation and for vigorous competition
   a. Classic and neoclassic economists prefer unregulated economy
C. Minimally regulated economies produce optimal outcomes
   1. The best outcomes for buyers, sellers, and society emerge because the invisible hand creates market harmony or market self-regulation
      a. A coordinated interaction of supply and demand
      b. Flexibility, rapid resource flow, motivated manufacturers and service providers, productive labor, constraints on greedy producers
D. Marketplace logic extends to all spheres of social life
   1. Marriage market, for example, is governed by market principles of mate selection
   2. But there are limits to marketplace logic
      a. Not all human action is based on rational calculation
      b. Sacrifice and care for others can’t be explained by self-interest (Rescuers of Jews in Nazi controlled countries did so at great personal risk and expense)

VI. The Economic Approach to (Economic-Social) Development
A. Exemplary role models: include economic thinkers who are part of a long line of theorists
B. Assumptions
   1. Neoclassical assumptions about minimally regulated markets and the mechanisms of economic growth
C. Root metaphors
   1. Economies grow through stages of development: underdeveloped, developing, and developed, for example
   2. Some nations are at the center of the global economy, others are at the periphery
   3. Countries can be ranked: first, second, or third world
D. The economic approach
   1. Includes concepts economic growth, gross national product, development, human development, developmentalists
   2. Economic development focuses on economic processes and structures that contribute to economic growth
   3. Suggests numerous theory-based economic policies: promote the private sector by deregulation, open local markets to foreign competition, and rationalize public sector organizations
E. Critical comments
   1. Marxists assert neoclassical economic theory is a tool used by capitalists to exploit underdeveloped countries; results in environmental destruction and damage to local cultures
   2. Feminists assert the neoclassical theories of development serve the interests of a male elite with numerous negative consequences for women
F. Applications of alternative economic approaches to development
   1. Movements to encourage women’s banking institutions, women’s self-employment associations

VII. Mapping Applied Economic Theory
A. Figure 12.1: Eco-Map: The Applied Economic Theory Version

B. Applied Economic Theory Translations

1. How are connections conceptualized?
   a. Exchange is the patterned transfer of material or nonmaterial items
      1. Goods
      2. Services
   b. Exchange requirements include
      1. Two actors decide to interact
      2. Actors establish identities of buyer and seller
      3. Actors consider others' interests as well as own interest
      4. Actors engage in cost-benefit calculations and negotiations
      5. Actors complete transfer when calculations result in belief that each will benefit in future

2. How is the quality of connections differentiated?
   a. Efficiency
      1. Positive – efficient exchanges (benefits easily and quickly obtained by all parties)
      2. Negative – inefficient exchanges (goods too expensive, hard for consumers to purchase, not enough goods for desires, etc)
   b. Equity
      1. Positive – fair and balanced distribution of benefits and costs, just
      2. Negative – unfair or unjust distribution of resources, benefits and costs
         a. One person underbenefited
         b. One person overbenefited

Other exchange principles include
   c. Complementary exchanges (meet obligations)
   d. Reciprocal exchanges (give and take in two ways)
   e. Beneficence (resources from those with abundance to those with scarcity)

3. What is the typical unit of attention or focal system?
   a. The exchanging actor (person, family, or organization) especially
      1. Firms

4. How is the environment conceptualized?
   a. Interrelated set of markets with buyers, sellers, advertisers, and other market participants

5. Is particular emphasis given to any systems?
   a. Corporations – large, competitive advantages, use influence to obtain favorable government conditions for profit-making
   b. Economically at-risk populations (lack basics, fall through safety nets)

6. How are resources and their flow conceptualized?
   a. Resources are valued responses exchanged by two actors (money, objects, qualities, etc)
      1. Tangible, concrete or intangible, symbolic
      2. Particularistic (parent's love) or universalistic (money)
   b. Propositions resource exchange have been developed by Foa
   c. Flow of resources is symmetrical or asymmetrical

7. What descriptive words are used?
   a. The vocabulary of capitalism

8. How is change conceptualized?
   a. Economic development – increase in the capacity of a community to ensure economic security
b. An increase in economic reciprocity
   1. Food cooperatives
   2. Affordable housing / shared living
   3. Local exchange trading systems

9. How are actual and ideal eco-maps contrasted?
   a. Actual – little regulation, great inequity
      1. Corporate interests dominate
      2. Few regulations to protect workers and citizens
      3. The resource rich exploit resource poor and dependent (at national and family level)
      4. Scarcity – not enough goods, etc
      5. Environmental degradation
   b. Ideal – some regulation, much equity
      1. Societal abundance
      2. Basic needs of all are met
      3. Sustainable
      4. Democratic governance of corporations (representation of everyone’s interests)

10. How are issues of diversity, color and shading addressed?
    a. Theorists give minimal attention to diverse groups
    b. Cultural groups vary
       1. By norms for exchange
       2. By preferences about items for exchange
    c. A few theorists examine the conditions and processed blocking the development of poor communities
    d. Some consider “relative deprivation” and its impact

11. What would be added or deleted?
    a. Commodities and objects

VIII. The Limits of Applied Economic Theory: A Social Work Appraisal
   A. Ideal of free markets is a myth
   B. There are problems with the assumption of the pervasiveness of rational choice
   C. Many spheres of human life are not governed by logic of marketplace
   D. Economic theorists lack human development perspective
   E. There is a need for social workers to challenge the assumption that unfettered capitalism brings best outcomes to all

IX. Applied Economic Theory: A Model for Saving a Social Work Program
   A. Economics-based conception of challenge: Success in saving a program depends on making its continuance beneficial and its closure costly to the program’s opponents
   B. Economics-based assessment include identifying persons with an investment in the program, assessing costs and benefits of mobilizing for action, assessing likely calculations of program opponents
   C. Economics-based intervention involved web-facilitated community organizing to increase the costs (time, effort, expenses, community reputation) of program closure to the administration