Funding the Future

What is economics? A logical explanation

Published: June 29, 2026, 6:19 am

Introduction

I have spent a lot of time on this blog talking about the politics of care, and less time on the economics of hope, but the two are, of course, intimately related.

I have already begun a series of articles on the economics of hope, **the third of which was published this morning. However, one of the luxuries of the last week, created by the fact that I was ill, was that, because I could not spend any time on video production, I could spend time thinking and reading about ways of presenting arguments, whilst also trying them out. That might be everyone's idea of how to manage extreme pain, but it was mine.**

This matters to me at present because I think that both the politics of care and the economics of hope are fundamentally new approaches to political economy.

Simultaneously, one of the recurring themes in the comments on this blog over the last few weeks has been the need for narratives to support these ideas.

To help build this narrative, I decided to use the logic of an "if/then" analysis. This is a form of argument that builds cumulatively on the suggestion that if one thing holds true, then another follows, resulting in another that must hold true, and so on.

I have now tried this logic on a number of familiar themes, all of which are big issues in my thinking, and none more so than the nature of economics itself. This piece flows from that experimental thinking.

What is economics?

* **If** every human being has needs that cannot be met alone, **then** every human being depends upon relationships with others.

* **If** people depend upon one another to survive and flourish, **then** every society must organise those relationships.

* **If** economics studies how societies organise themselves, **then** economics is the study of how societies manage the relationships on which life depends.

* **If** every person possesses unique but finite potential, **then** society should seek to create relationships that help each person realise that potential.

* **If** people flourish when they can realise their potential, **then** the purpose of an economy is to create the conditions in which this is possible.

* **If** all human life depends upon the natural world, **then** every economy depends upon its relationship with nature.

* **If** the natural world provides the energy, materials and ecological systems on which life depends, **then** no economy can exist independently of nature.

* **If** the people, relationships, knowledge, institutions, infrastructure and natural systems within a society embody the capacity to meet need and create future wellbeing, **then** that capacity is its **societal capital**.

* **If** societal capital is the total productive, caring, creative and regenerative capacity embodied within a society, **then** the purpose of economic activity is to create, maintain, renew and wisely use that capital.

* **If** production transforms societal capital into goods and services that meet needs, **then** production is a means of realising societal capital, not an end in itself.

* **If** unmet need persists despite society possessing sufficient societal capital to meet it, **then** society has failed to manage the relationship between societal capital and wellbeing.

* **If** care develops, maintains and restores the people and relationships on which every society depends, **then** care is one of the principal means by which societal capital is created and renewed.

* **If** education, healthcare, environmental stewardship, scientific discovery, culture and democratic institutions increase society's future capacity to meet needs, **then** they are investments in societal capital.

* **If** people specialise in different activities, **then** they become increasingly dependent upon one another.

* **If** people depend upon one another, **then** exchange becomes one way of managing those relationships.

* **If** exchange takes place across many people and over time, **then** society benefits from a common system for recording obligations, claims and settlement.

* **If** money performs that function, **then** money is an accounting system for managing

economic relationships.

* **If** money records claims upon societal capital but is not itself societal capital, **then** money is not the economy.

* **If** finance exists to allocate and manage claims upon societal capital, **then** finance exists to support the development and use of the real economy, not to become an end in itself.

* **If** relationships within society are varied and complex, **then** they require many different institutions to manage them.

* **If** families, communities, businesses, companies, co-operatives, markets, charities and governments each manage different relationships, **then** each has an essential economic role in creating, protecting or mobilising societal capital.

* **If** markets organise only some relationships well, and neglect others such as care, public goods and long-term stewardship, **then** markets alone cannot sustain societal capital.

* **If** governments can help society create, protect and mobilise societal capital where markets cannot, **then** government is an essential economic institution.

* **If** every institution shapes power as well as resources, **then** economics must ask who controls societal capital, who benefits from it and who is excluded from it.

* **If** today's decisions determine tomorrow's societal capital, **then** economics must manage relationships across time as well as between people.

* **If** the real limits on an economy are the quantity, quality and resilience of its societal capital, **then** these are the real constraints on economic activity.

* **If** money is an accounting system for managing claims upon societal capital, **then** money can never be the ultimate constraint on an economy.

* **If** money can never be the ultimate constraint on an economy, **then** the first question in economics should never be, "Where will the money come from?", but instead, "Do we have, or can we create and mobilise, the societal capital needed to achieve our goal?"

* **If** inflation occurs when financial claims exceed society's capacity to mobilise its societal capital, **then** the task of economic policy is to develop and manage societal capital whilst ensuring that financial claims remain consistent with the economy's real capacity.

* **If** inequality concentrates control over societal capital and limits access to its benefits, **then** reducing inequality is an economic necessity.

* **If** measures such as GDP record flows of economic activity but ignore changes in societal capital, **then** they cannot by themselves define economic success.

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If the purpose of an economy is to create, maintain, renew and wisely use societal capital so that everyone can realise as much of their finite potential as possible within planetary limits, **then** economics is the study of how societies manage the relationships that make this possible.

A resulting accounting framework for economics

This understanding of economics also suggests a different accounting framework.

Conventional economics is primarily concerned with measuring flows of money, income and production. It pays much less attention to the underlying capacity that those flows create, maintain, restore or destroy.

This framework begins with a different question. It asks how society's capacity to meet needs and enable people to realise their potential changes through time.

That capacity is what I have called **societal capital**. It is the productive, caring, creative and regenerative capacity embodied in the people, relationships, institutions and natural systems of a society.

The purpose of economic accounting is therefore to explain changes in societal capital.

Every accounting period begins with an opening stock of societal capital.

Economic activity then changes that stock.

Some activities create new societal capital. Others maintain existing societal capital. Others consume or deplete it. The task of accounting is to record those changes faithfully.

The simplest accounting identity is therefore:

Opening societal capital

+ creation of societal capital

− consumption of societal capital

= Closing societal capital.

As understanding improves, that identity can be refined by distinguishing between creation, maintenance, depletion and changes in the assessed quality or resilience of societal capital. The purpose is not to make accounting more complicated. It is to describe economic reality more faithfully.

Money forms part of this accounting framework, but only a part.

Money records financial claims upon societal capital and helps coordinate the relationships through which societal capital is created, maintained and used. It is therefore a subset of the accounting framework for economics. It is neither the accounting framework itself nor the economy that the framework seeks to describe.

The central question for economics, therefore, becomes:

Has society strengthened or weakened its societal capital?

If societal capital has increased, society has enhanced its future capacity to meet needs and enable people to realise their potential.

If societal capital has merely been maintained, that capacity has at least been preserved.

If societal capital has been depleted, society has become poorer, whatever its GDP, profits, wealth or financial assets may suggest.

Seen in this way, economics is not primarily about money. It is about accounting for the capacity of society to flourish.

Why this matters

Thinking about economics in this way changes almost everything.

It changes what we measure. Instead of concentrating on money, deficits, debt, or GDP alone, we begin by asking whether society is creating, maintaining, and renewing the capacity on which future well-being depends.

It changes what we value. Care, education, public health, environmental stewardship, trust, democratic institutions and social cohesion are no longer treated as secondary concerns. They become central because they are among the principal means by which societal capital is created and sustained.

It changes the questions we ask of government. Instead of asking whether there is enough money to achieve a goal, we ask whether society possesses, or can develop, the societal capital required to achieve it. Money becomes a tool for organising economic activity, not the measure of whether that activity is possible.

Most importantly, it changes what economics is for. Economics ceases to be the study of markets, prices or financial optimisation. It becomes the study of how societies create, maintain, govern and renew the societal capital upon which all future well-being depends.

That, I suggest, is a better economics because it begins with reality rather than abstraction, with people rather than money, with relationships rather than markets, and with the future capacity of society rather than the financial transactions of the present.