



Reinventing economics

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ECONOMIC analysis is about understanding the workings of the economic system. Many elegant economic theories exist to analyse wealth-creating productive activities. Conventional economic theory focuses on a one-dimensional world.

Prof Andrew Skinner, a pre-eminent scholar of Adam Smith, has argued that Smith -- the great economist -- would have had every sympathy with Nobel Peace Laureate Muhammad Yunus' rejection of the economists' 'one-dimensional treatment of human activity', and he joins him to say: "People are exceedingly multi-dimensional in what Adam Smith explained as the multifaceted nature of human behaviour -- while they have their selfish dimension, at the same time, they also have their selfless dimension."

Capitalism together with technological advancement and the role of the market that has grown up around conventional theories makes only little room for the selfless dimension of people. Despite Adam Smith's observations and reasonable concerns over the miseries of the poorer majority in society, economists who have followed his ideas have failed to explore the impact of the selfless notion of people as a driver of behaviour for economic action (as, for instance, in charitable and philanthropic activities). As such, economic theory has so far been less effective to integrate these other drivers of behaviour in mainstream economic models.

Furthermore, the writings of Adam Smith were seized upon by traditional economists to argue that the 'invisible hand' of the market always creates the best of all possible worlds. This undermined investigation of the 'real' challenge of economics: the design of sustainable systems -- the notion of entrepreneurship was distorted into 'top-down' value extraction as distinct from value-creating 'bottom-up' possibilities.

The increasingly important role of social enterprises and initiatives directed at empowering communities in tackling poverty, deprivation and inequalities in income, health, education, and housing, presses

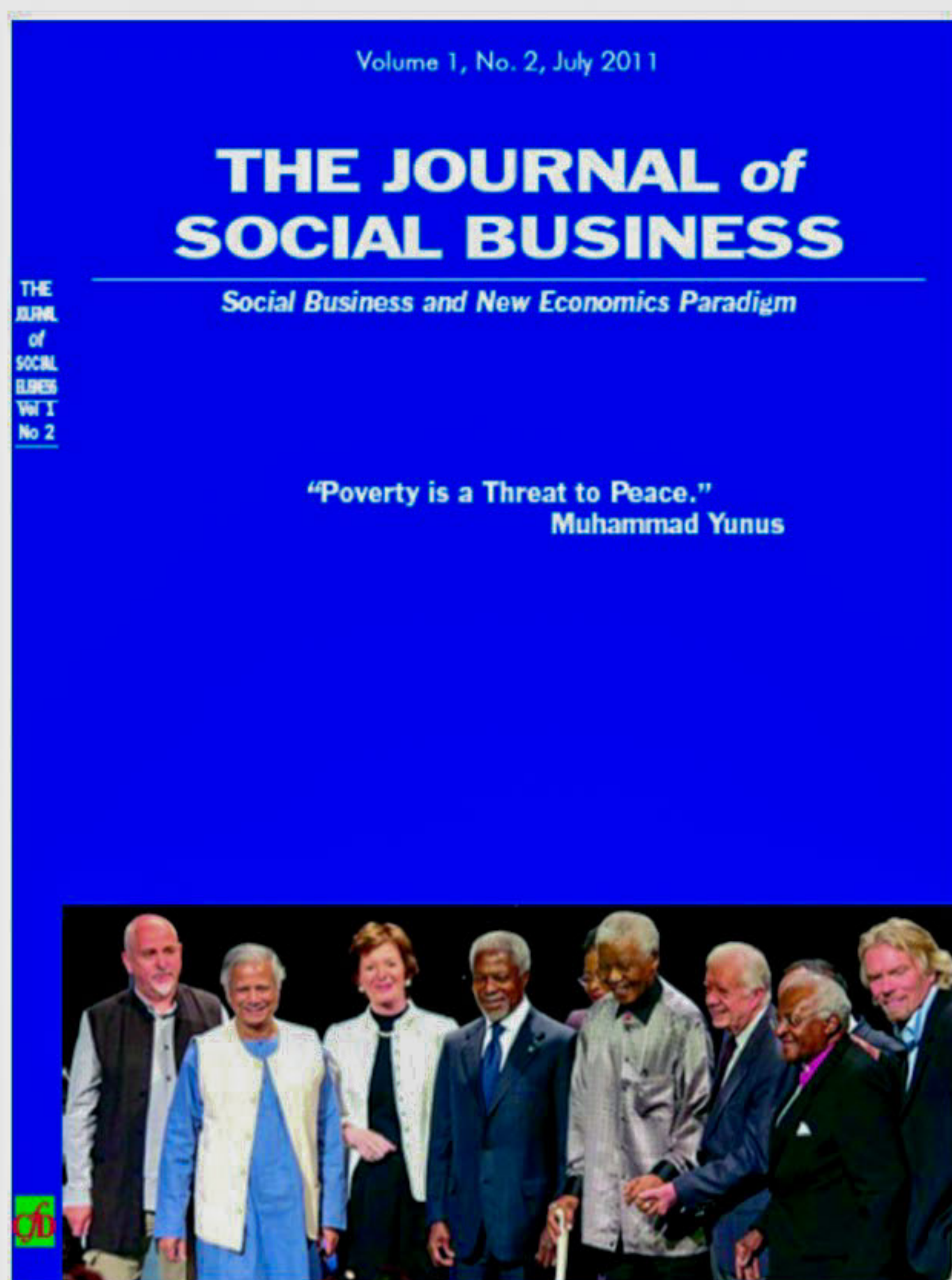
socially-conscious people to reinvent economics. Referring to the current inability of modern economics to solve crucially important societal problems, Prof Muhammad Yunus explains: "Things are going wrong not because of market failures. The problem is much deeper than that. The mainstream free-market theory suffers from a conceptualisation failure, a failure to capture the essence of what it is to be human."

Currently, the selfless dimension of entrepreneurial activity -- even charity or philanthropy -- has no effective role in mainstream economics, yet these yield an important re-distributive function to improve fairness in economic outcomes. However, bringing social concern and business ideas/issues into the sphere of economic and business strategy theory would allow economists to better capture the human dimension of entrepreneurship.

Remarkably, the recent successes of Grameen-type collateral-free microcredit and microfinance initiatives -- directed at addressing the critical needs of the people at the bottom of the global community -- challenges economists to rethink assumptions about how poor households save, invest and build assets, and how institutions can overcome market failures. What obviously is new: microfinance seeks to develop capitalist operations, even though on a small scale. As such, these other drivers of behaviour for influencing economic actions need to be integrated into a more encompassing paradigm.

The global economic crisis, food crisis, energy crisis and ever-worsening environmental problems have forced economists to think about traditional economic theories anew. As explained earlier, economics essentially needs to be built on the foundation of humanity. Hence, the articulation of 'Social Business and the New Economics' as a new line of enquiry will allow them to better capture the essence of what is to be human, and focus on how to create sustainable social business enterprises in order to regenerate the most humanly purposeful society.

Indeed, a new economics paradigm has evolved out of a volume of research, culminating in a number of groundbreaking presentations at the Global Assembly Conference -- organised by The Centre for Development (CfD) Scotland at the University of Glasgow on July 4, 2010 -- on diverse community initiatives



directed at tackling poverty, deprivation and income inequalities in Scotland and elsewhere. These included Grameen's global experiences and Prof Yunus' timely presentations to encourage innovative ideas and provide poor people's access to technology and entrepreneurial non-loss non-dividend activities, which have social cause-driven purposes to deal with apparently insurmountable problems from malnutrition, inadequate healthcare, education and housing, as well as safe and secure affordable alternative energy sources.

Adam Smith in *The Wealth of Nations* (1776) expressed his genuine concerns: "What improves the circumstances of the greater part can never be regarded as an inconvenience to the whole. No society can surely be flourishing and happy, of which by far the greater part of the numbers are poor and miserable."

Even after 235 years of his famous articulation, poverty is still the gravest insult to human dignity and a scar on humanity's face. As such, social mission-driven entrepreneurial activities, which are aimed at eliminating poverty and enhancing human welfare, would

merit special attention. Prof Yunus' vision for a new dimension of capitalism is seen as an approach for "harnessing the energy of profit-making to the objective of fulfilling human needs." Indeed, he states to harness the powers of the free market to solve the problems of poverty a la social business.

In an attempt to address the issue of 'Social Business and New Economics' as a subset of mainstream economics paradigm, the second issue of this new journal includes a number of scholarly research papers and real life scenario articles, which focus on new dimensions of economics and business. In his elegant analysis, Prof Chris Berry seeks to identify some aspects where Adam Smith's conception of a 'moral economy' might inform an assessment of the current economic hardships induced by the banking crisis, notably the relation between liberty and regulation that he links to a too facile interpretation of the 'invisible hand' and the seeming detachment of economics from a moral framework.

As he further reflects, whether a re-invigorated version of the Smithian type of moral economy is

a solution remains to be seen and attempts to recapture something of his outlook, as in the concept of social business, are ongoing. To this extent, he suggests that Muhammad Yunus, in an articulation of the basic weakness of capitalism, has recently invoked Smith's Theory of Moral Sentiments for its recognition of 'the moral dimension of social consciousness.'

Dr Purba Mukerji and Chad Stewart have attempted to assess whether economic fundamentals representing enduring characteristics of an economy (such as infrastructure, financial development, social structures) serve as important inputs into the success of income-generating initiatives undertaken by the poor with credit received from microfinance institutions. It is worthy of note, in a panel dataset of 74 countries over 10 years, they have constructed a New Index of Microfinance while ranking countries according to how conducive their economic environment is for microfinance.

Dr Reiner Blank and Dr Richard Blents in their article argue that the recent financial crisis and concomitant global interdependencies have exposed some of the flaws of capitalism, thus calling into question the relevance of the old economics paradigm. They argue for a transformation and paradigm shift towards people orientation while pursuing business goals. As they claim, now is the time to explicate and define the emerging patterns and support what is deemed desirable, sustainable and life-promoting.

Samuel Touboul and Thomas Roulet, in a detailed analysis of the potential of social entrepreneurs in developing countries, argue that turning existing entrepreneurs into social entrepreneurs is a challenge for governments and multilateral organisations. They suggest that the 'turning' move could heavily impact on the development and sustainability of emerging markets. As they conclude, turning existing entrepreneurs into social entrepreneurs is the key most developing countries need to balance economic and social development.

Chris Macrae, in reference to *The Economist* magazine's former deputy editor, prudent futurist Norman Macrae's recent urge -- 'to right now seize his 1976's 'entrepreneurial revolution' challenge if richer nations wish to prevent the 2010s from being a decade of compounding slumps and ever higher youth unemployment' -- emphasises that we essentially need to commit for building pro-youth models of economics. He believes that 7 billion people can advance the human lot while empowering our children to be more productive and sustain more than our (elder) generation's possibilities.

In the second part of his article, Chris Macrae regards Grameen as a real leader of the race to end poverty. He suggests the Grameen microeconomic miracle compounded over seven years (1976-83) of action learning research was passionately focused on the world's poorest village mothers' own definition of how to communally end poverty. He finds a historic coincidence between the entrepreneurial revolution challenges advanced in 1976, from the two different perspectives of Norman Macrae from London and Muhammad Yunus from the Bangladeshi village, Jobra.

Sofia Bustmante and Mamading Ceesay -- with reference to Grameen's outstanding success in lifting millions of Bangladeshi people (women) out of poverty -- describes a community development action initiative called 'Social Startup Creative Labs' in rising to the challenge of fighting poverty in a most developed western city. This is being achieved via creating work and bringing social business ideas to deprived communities. Finally, Roy Grieve in his article asks if it is realistic to expect that particular business model to fulfil the high hopes placed upon it as a powerful instrument of social improvement. It is hoped that the launch of this exciting new international quarterly journal will be able to draw on new developments in theories of economics and business strategy, encourage scholarly research, but also lead to more effective practice and public policy in dealing with poverty. Also, the role of the journal will be one of providing a forum for a wide range of discussions of the problems and experiences of social cause-driven entrepreneurial activities -- both for-profit and not-for-profit -- in their various manifestations and initiatives to achieve social benefits where unmet needs are perceived.

Finally, even in a small way, the launch of this new journal may help in that process in order to maximise social impact, thus enhancing human welfare.

The writer is the managing editor of *The Journal of Social Business*.

THE ECONOMICS OF GOOD LOOKS

The line of beauty

Pretty people still get the best deals in the market, from labour to love

Beauty Pays: Why Attractive People are More Successful. By Daniel Hamermesh. Princeton University Press; 216 pages; \$24.95 and £16.95.

The Beauty Bias: The Injustice of Appearance in Life and Law. By Deborah Rhode. Oxford University Press USA; 272 pages; \$17.95 and £15.99.

REVIEWED BY THE ECONOMIST

FRANCE looked back this week at the 1911 theft of the Mona Lisa from the walls of the Louvre. It was one of the most startling art heists in history, but the emotions it still arouses go beyond that. Stealing Leonardo da Vinci's painting was like stealing beauty itself. And beauty has lost none of its power to bewitch, bother and get its own way, as two new books on the economic

advantages of good looks confirm.

Physically attractive women and men earn more than average-looking ones, and very plain people earn less. In the labour market as a whole (though not, for example, in astrophysics), looks have a bigger impact on earnings than education, though intelligence -- mercifully enough -- is valued more highly still.

Beauty is naturally rewarded in jobs where physical attractiveness would seem to matter, such as prostitution, entertainment, customer service and so on. But it also yields rewards in unexpected fields. Homely NFL quarterbacks earn less than their comelier counterparts, despite identical yards passed and years in the league. Not everything comes easier: good-looking women seeking high-flying jobs in particularly male fields may be stymied by the "bimbo effect" until they prove

their competence and commitment. But the importance of beauty in the labour market is far more pervasive than one might think.

The same is true in other markets. Women have traditionally traded looks for economic support in marriage. A Chinese study confirms that the husbands of unappealing women earn about 10 per cent less than those of their dishier counterparts. Attractive people also have an easier time getting a loan than plain folks, even as they are less likely to pay it back. They receive milder prison sentences and higher damages in simulated legal proceedings. In America more people say they have felt discriminated against for their appearance than because of their age, race or ethnicity. Pretty people, it seems, have all the luck. These books attempt to explain why that is, and

what, if anything, should be done about it.

Daniel Hamermesh, an economist at the University of Texas, has long written about "pulchronics". In "Beauty Pays" he reckons that, over a lifetime and assuming today's mean wages, a handsome worker in America might on average make \$230,000 more than a very plain one. There is evidence that attractive workers bring in more business, so it often makes sense for firms to hire them. Whether rewarding them accordingly -- and paying their less attractive peers more stingily -- is good for society is another matter.

In examining the case for legal protection for the ugly, Mr Hamermesh relies to a degree on the work of Deborah Rhode, a law professor at Stanford University and author of "The Beauty Bias". Ms

Rhode clearly struggles to see why any woman would willingly embrace fashion (particularly high heels). She is outraged that virtually all females consider their looks as key to their self-image. She cites a survey in which over half of young women said they would prefer to be hit by a truck than be fat. Her indignation is mostly moral. Billions of dollars are now spent on cosmetic surgery -- up to 90 per cent of it by women -- at a time when almost a fifth of Americans lack basic health care. The more women focus on improving their looks, Ms Rhode argues, the less they think about others.

Discriminating against people on the grounds of personal appearance should be banned, she says. It limits a person's right to equal opportunity, reinforces the subordination of groups where unappealing characteristics, including obesity, are concentrated (ie, the poor, some ethnic minorities), and restricts self-expression. Yet because ugliness is harder to define than race or sex, some argue that anti-discrimination laws are impossible to maintain. And anyway, say employers, appearance is often relevant to the job at hand.

Ms Rhode sees the hurdles, but argues that they can be dealt with. In places where "lookism" is already prohibited (eg, Washington, DC), such statutes have not provoked a flood of frivolous cases, she says. Occasionally beauty is essential to a business (ie, modelling, but not air-hostessing). But concerns about an employee's effectiveness often reflect the biases of employers, not customers. Laws influence attitudes over time, she says, by denying those with prejudices the opportunity to indulge them.