common resources
Productive resources (such as forests, pasture lands, and fishing waters) that are owned by no single person but are available for use by different people.

Contemporary Economics

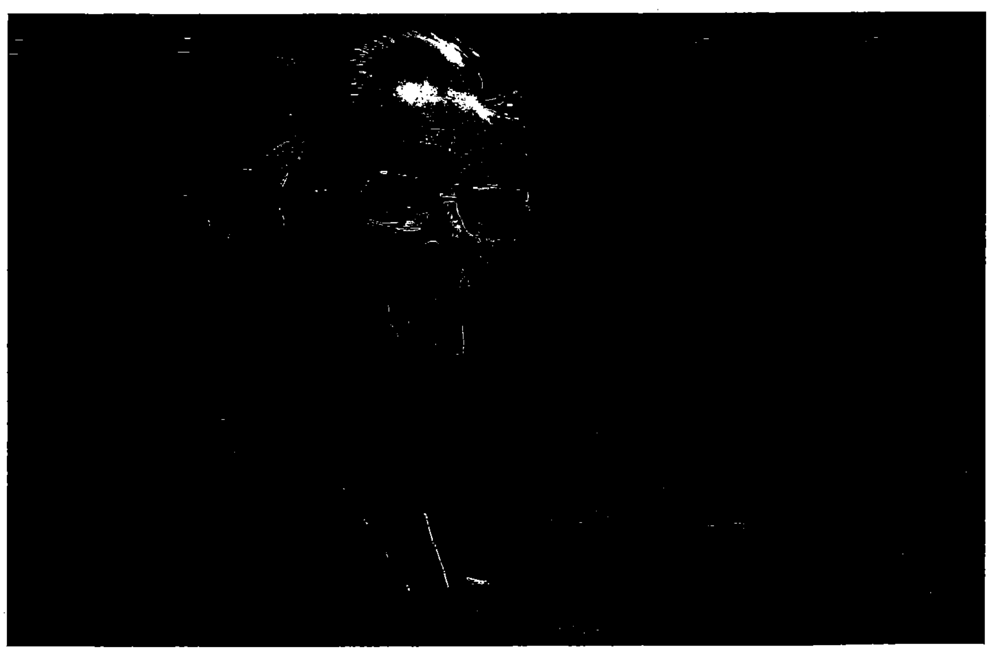
THE CONTEMPORARY SCENE

By now, most readers have probably begun to wonder whether economic problems can ever really be solved. Some problems keep reappearing in cycles, and each reappearance makes them seem more complex and difficult to address. At the same time, some new problems appear to be the direct results of theories and strategies intended to fix earlier problems. The concept of trade-offs appears to be key in the development of economic thought. We can address one problem, it seems, only at the expense of aggravating another. Clearly, some of our economic goals are in conflict, and some of our theories need to be rethought in light of changing times. We will now examine the thinking of four contemporary economists, from four different parts of the world, and the problems each has addressed.

ELINOR OSTROM (1933–2012)

In 2009, Indiana University professor Elinor Ostrom became the first woman to be awarded the Nobel Prize in Economic Sciences. She received the prize for her groundbreaking research demonstrating that **common resources** (such as forests, pasture lands, and fishing waters) can be managed more effectively by the people who use them than by governments or private companies. This research helped to disprove the idea long held by economists that "common" resources would be overused and depleted. Conventional wisdom advocated government regulation and privatization. Ostrom's alternative was that key management decisions should be made on site and by the individuals directly involved. Her research showed that, over time, the rules and procedures established in this manner—to care for and use "common" resources—are more economically and ecologically sustainable in the long run. This idea was an important breakthrough in resource management and governance.

Elinor Ostrom

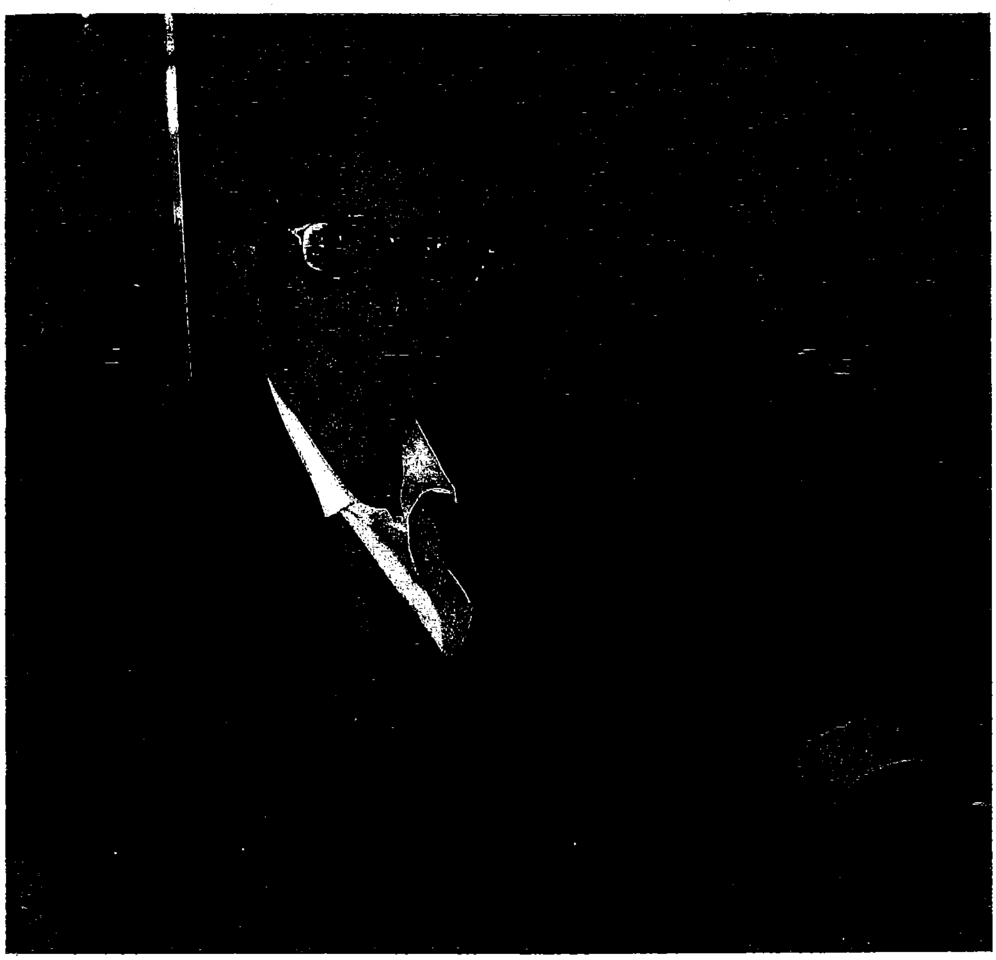


AMARTYA SEN (1933–)

Amartya Sen is a professor at Harvard University and the recipient of the 1998 Nobel Prize in Economic Sciences for his work in famine studies. He is an Indian economist and philosopher who has taught and worked in India, Britain, and the United States. While studying at the University of Cambridge, Sen was influenced by both John Maynard Keynes and Joan Robinson.

As a young boy, Sen became keenly interested in famines after experiencing the Bengal famine of 1943, in which 3 million people died. Sen's studies revealed that in many cases of famine, declining food production is not as critical a factor as poor distribution. In Bengal, for example, while food production was slightly down from previous years, social and economic factors such as lower wages, rising unemployment, panic buying, hoarding, and price gouging led to the maldistribution of available food and, ultimately, to starvation.

In the area of economic development, he stressed the importance of providing capability and opportunity equitably to all citizens. Sen argues that governments should be measured by the tangible capabilities of their citizens. He was also influential in the establishment of the United Nations Human Development Report, an annual publication that ranks countries in terms of the progress they are making on a number of economic and social indicators, such as literacy, income, and health outcomes.



Amartya Sen

DID YOU KNOW?

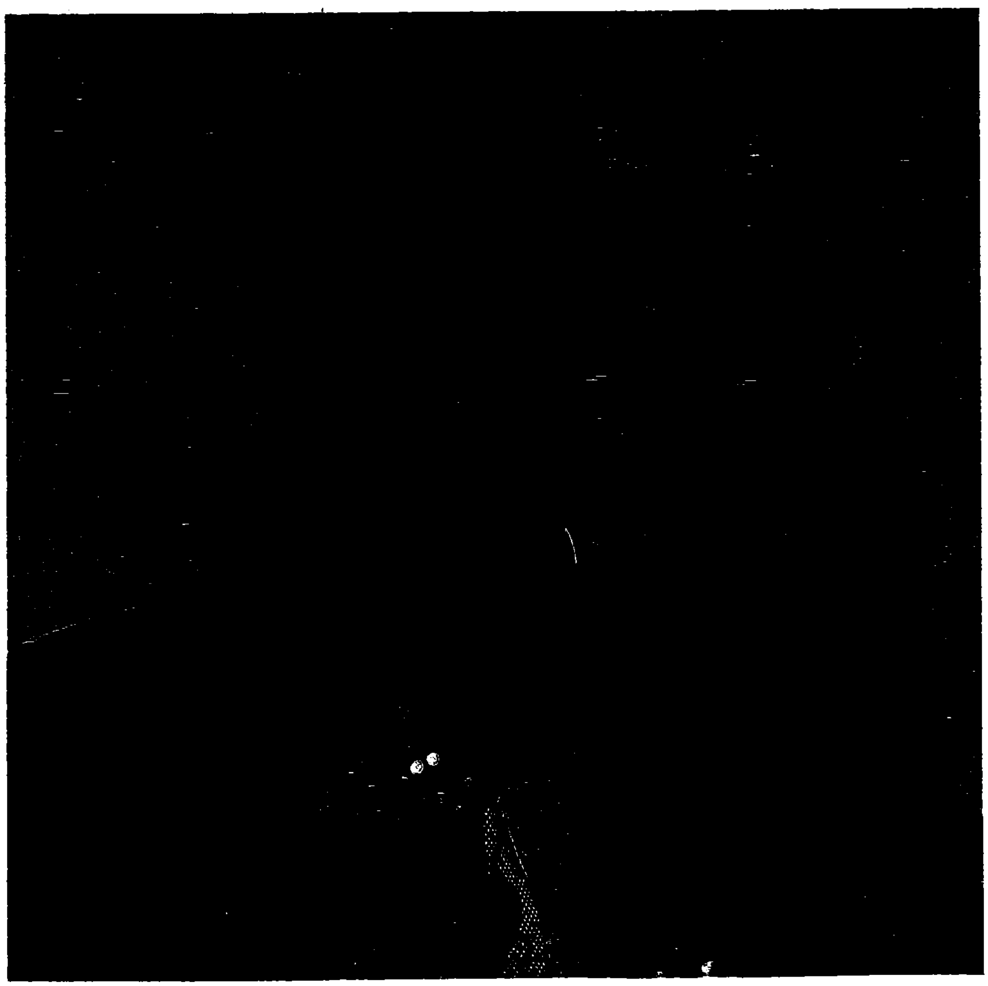
Originally, the economic world was essentially male-dominated. As economic principles confirm, when half the population is unemployed or underemployed, the production possibilities frontier can never be reached. Since 1950, women have contributed significantly to the development of economic thought. In Canada, economists such as Nuala Beck, Dian Cohen, Sherry Cooper, Judith Maxwell, and Sylvia Ostry have enriched the ongoing advancement of economic thinking.

developmentalist
A school of economic thinkers who believe that economic development makes social and political progress possible.

MARK CARNEY (1965–)

Canadian-born Mark Joseph Carney studied economics at Harvard University before completing his master's and doctoral degrees at the University of Oxford. For 13 years, he worked for Goldman Sachs, a legendary American investment bank with offices in global financial centres including London, New York, Tokyo, and Toronto. He quickly rose up the corporate ranks, and his transfers to offices in different countries provided a wealth of experience in dealing with financial crises. Back in Canada, Carney decided to give up his lucrative private-sector work for a public-service job. He worked for the Bank of Canada (Canada's central bank) and the federal Department of Finance before being appointed governor of the Bank of Canada in 2008. In the same year, the global recession was triggered by the financial meltdown of some major and reckless American banks. Under his stewardship, and low interest rate policy, Canada was not as badly affected by the global economic downturn, and it was one of the first countries to recover. In 2013, Carney became governor of the Bank of England, just three years before Britain's 2016 vote to exit the European Union. This decision sent the British pound plummeting in international money markets. In both cases, Carney acted quickly and decisively, using interest rates to defuse a potentially disastrous situation. This earned him an international reputation as a master central banker.

Mark Carney



DID YOU KNOW?

The **developmentalist** school of economic thought began (around 1960) as a group of economists who believed that economic development drove social and political progress. They believed less-developed countries could best grow their economies through industrialization—by fostering a strong, resource-based domestic market and imposing protective high taxes on imported goods. Over time, their thinking has expanded to include capitalism with a more social conscience so that social justice and government accountability for the welfare of its people are prioritized.

DAMBISA MOYO (1969–)

Zambian-born Dambisa Moyo is an international economist specializing in national economics, international development, and global affairs. She earned her doctorate in economics from the University of Oxford in 2002. In her first book, *Dead Aid* (2009), she argued that ongoing government-to-government assistance has hurt African development and should be stopped because this **foreign aid** has fostered dependency, encouraged corruption, and perpetuated poverty and bad government. It quickly became a bestseller and was translated into many languages. The book suggests that current forms of development assistance actually hinder economic growth and perpetuate poverty. Moyo recommends self-financing ventures (with private-sector investments and free-market solutions) as an alternative to development based on government-to-government aid strategies that have simply not worked for the past 50 years. Moyo's theory draws a big distinction between **humanitarian aid**, which she still sees as being essential, life-saving assistance in times of emergency conditions like famine and drought, and *foreign aid*, which often helps the economy of the contributing country more than the receiving African country.

foreign aid
Assistance and economic support given from one national government to another to combat poverty and to facilitate economic growth.

humanitarian aid
Life-saving assistance from one country to another in times of emergencies such as famine, drought, earthquakes, tsunamis, and destructive weather storms.

Dambisa Moyo

Two years later, in her second book, *How the West Was Lost*, she analyzed the slow decline of some of the world's economies and concluded that many leading economies are squandering their economic advantage or supremacy. She singled out the United States' flawed decision making and fractured policies around capital, labour, and technology as contributing to the country's steady decline in recent years. A 2012 publication entitled *Winner Take All* explores the implications of China's rush to acquire natural resources around the world to conclude that China is well on the road to gaining a dominant position in the global economy.

SUMMING UP

Despite advances in economic thinking, serious problems persist in society. Cynics might say that in some cases, they have gotten worse. The gap between "have" and "have not" countries appears to be widening. Even in prosperous economies, one can find poverty amid affluence. In the United States and Canada, many factories are closed and boarded up. By contrast, in China and Southeast Asia, factories keep springing up to manufacture products once proudly made in North America. Although numerous attempts have been made to help develop the economies of the poorest African countries, progress has been sporadic and limited.

In many ways, today's problems seem to be more complex. Clearly, repeating what has not worked in the past is not a wise choice of action. Some might see it as a sign of insanity! All the more reason to keep taking this course seriously. We will need young, fresh, and perceptive thinkers to address our most persistent problems in new and more effective ways.

Self-Reflect

1. Explain the important breakthrough Elinor Ostrom achieved regarding resource management and governance.
2. What did the theories of Amartya Sen and Dambisa Moyo expose about economic conditions in some of the world's poorest countries?
3. How did Mark Carney choose to stimulate the Canadian economy in 2008 to lessen the impact of the global recession?