



E.F. Schumacher
Small is
Beautiful
Economics as if
People Mattered

Chapter 3

The Role of Economics

A Lonergan Institute Seminar

St Anselm's Abbey



Some Opening Quotes from Schumacher

- *“It is hardly an exaggeration to say that, with increasing affluence, economics has moved into the very center of public concern, and economic performance, economic growth, economic expansion, and so forth have become the abiding interest, if not the obsession, of all modern societies.”*
- *“Call a thing immoral or ugly, soul-destroying or a degradation of man, a peril to the peace of the world or to the well-being of future generations: as long as you have not shown it to be 'uneconomic' you have not really questioned its right to exist, grow, and prosper.”*
- *“...what sort of meaning the method of economics actually produces. And the answer to this question cannot be in doubt: something is uneconomic when it fails to earn an adequate profit in terms of money.”*

How would you define economics?

- Economics comes from the ancient Greek word "*oikonomikos*" or "*oikonomia*."
- *Oikonomikos* literally translates to "the task of managing a household."
- Some centuries forward, French mercantilists used "*economie politique*" or political economy as a term for matters related to public administration

Our Group Definition: Socrates Café Style

- The study of the intersection of human behavior and wealth (scarcity).
- The science of how people respond to different incentives
- Relating the production of wealth to its consumption - how do you relate the producing of consumer goods and capital goods, and the distribution thereof

Our Group Definition: Socrates Café Style

- How you use materials, like in a household, economics as an ideology, the boundedness of a polis and a household, important role of the imagination in economics, utopian aspect
- Stewardship, limited amount of whatever, that we have to make the best use of, there is a political side, hard part is to decide what the best use of a thing is, have to give things a price

Our Group Definition: Socrates Café Style

- Basic question of criteria - how to conceive a new economy, not the economy that exists - new economics - as the identification of adequate criteria - questioning the dominant criteria - criteria for how to manage our ecological resources - to benefit all - common good - tie it to a notion of a household broader than our home - household and ecological resources - managing resources

Our Group Definition: Socrates Café Style

- Managing resources - science of this - core component of - human labor - natural resources, etc

Compare Schumacher's Views to How Some Various Economists Define Economics

Ben Bernanke, Former Federal Reserve Chairman

- "The ultimate purpose of economics, of course, is to understand and promote the enhancement of well-being."

Joseph Schumpeter. 1883 - 1950

- "To use a felicitous phrase: economic analysis deals with the questions of how people behave at any time and what the economic effects are they produce by so behaving; economic sociology deals with the question how they came to behave as they do. If we define human behavior widely enough so that it includes not only actions and motives and propensities but also the social institutions that are relevant to economic behavior such as government, property inheritance, contract, and so on, that phrase really tells us all we need."

Paul Samuelson, 1915 -2009

- "Economics is the study of how people and society choose, with or without the use of money, to employ scarce productive resources which could have alternative uses, to produce various commodities over time and distribute them for consumption now and in the future among various persons and groups of society."

Schumacher on Types of Economic Goods

- *“Economics, moreover, deals with goods in accordance with their market value and not in accordance with what they really are. The same rules and criteria are applied to primary goods, which man has to win from nature, and secondary goods, which presuppose the existence of primary goods and are manufactured from them. All goods are treated the same, because the point of view is fundamentally that of private profit-making, and this means that it is inherent in the methodology of economics to ignore man's dependence on the natural world. ”*



Modern Economic Theory Regarding Types of Goods

	Excludable	Nonexcludable
Rival	Private Goods e.g. Ice cream, cheese, houses, cars	Common Resources e.g. fresh water, timber, pasture
Non-Rival	Club Goods e.g. cable television, Wi-Fi, cinemas, toll roads	Public Goods e.g. fresh air, national defense, knowledge

Modern Economic Theory: Sectors of the Economy



Primary Sector

- Extracts or harvests products from the earth such as raw materials and basic foods



Secondary Sector

- Produces finished goods from the raw materials extracted by the primary economy; all manufacturing, processing, and construction jobs lie within this sector



Tertiary Sector

- The service industry; this sector sells the goods produced by the secondary sector



Quaternary Sector

- The knowledge economy; activities associated with this sector include government, culture, libraries, scientific research, education, and IT



Quinary Sector

- Includes the highest levels of decision-making in a society or economy; includes top executives or officials in such fields as government, science, universities, nonprofits, health care, culture, and the media

Schumacher on Qualitative Distinctions

- *“As far as the religion of economics is concerned, the consumer is extra- territorial. This strange and significant feature of the modern world warrants more discussion than it has yet received. ”*
- *“In the marketplace, for practical reasons, innumerable qualitative distinctions which are of vital importance for man and society are suppressed; they are not allowed to surface. Thus the reign of quantity celebrates its greatest triumphs in 'The Market'. Everything is equated with everything else. To equate things means to give them a price and thus to make them exchangeable. To the extent that economic thinking is based on the market, it takes the sacredness out of life, because there can be nothing sacred in something that has a price. Not surprisingly, therefore, if economic thinking pervades the whole of society. even simple non-economic values like beauty, health, or cleanliness can survive only if they prove to be 'economic'.”*

Pope Francis, from Laudato SI

- “The principle of the maximization of profits, frequently isolated from other considerations, reflects a misunderstanding of the very concept of the economy. As long as production is increased, little concern is given to whether it is at the cost of future resources or the health of the environment; as long as the clearing of a forest increases production, no one calculates the losses entailed in the desertification of the land, the harm done to biodiversity, or the increased pollution. In a word, businesses profit by calculating and paying only a fraction of the costs involved. ‘Yet only when the economic and social costs of using up shared environmental resources are recognized with transparency and fully borne by those who incur them, not by other peoples or future generations,’ can those actions be considered ethical. An instrumental way of reasoning, which provides a purely static analysis of realities in the service of present needs, is at work whether resources are allocated by the market or by state central planning.”

■ Conclusions:

How do we derive economic theory from a moral relationship between man and nature?

Going back to our definition of economics, how did we do?

Did we see nature as a foundation for our economic system?

Is all economic growth good?

What categories of our modern economy, represent “bad” growth, or “poor quality” GNP“?

Why do we continue to buy “poor quality” goods and services (GDP)? Is it a free choice?

- What, then, is meta-economics? As economics deals with man in his environment, we may expect that meta-economics consists of two parts - one dealing with man and the other dealing with the environment. **In other words, we may expect that economics must derive its aims and objectives from a study of man, and that it must derive at least a large part of its methodology from a study of nature.**
- In this chapter, I confine myself to a discussion of the second part of meta- economics, i.e. the way in which a vital part of the methodology of economics **has to be derived from a study of nature.**



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