



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

Chapter 8

Resources for Industry

A Lonergan Institute Seminar

St Anselm's Abbey

Does All Our Stuff Do Us Any Good?

From E.F. Schumacher:

- *"The most striking thing about modern industry is that it requires so much and accomplishes so little. Modern industry seems to be inefficient to a degree that surpasses one's ordinary powers of imagination. Its inefficiency therefore remains unnoticed.*
- *"For the 5·6 per cent of the world population which live in the United States require something of the order of forty per cent of the world's primary resources to keep going."*



What is Efficiency?

- Economic efficiency refers to the optimization of resources to best serve each person in that economic state.
- No set threshold determines the effectiveness of an economy, but indicators of economic efficiency include goods brought to market at the lowest possible cost and labor that provides the greatest possible output.



Source: <https://www.investopedia.com/terms/e/efficiency.asp>

What is Efficiency?



- Operational efficiency measures how well profits are earned as a function of operating costs.
- The greater the operational efficiency, the more profitable a firm or investment is.
- This is because the entity is able to generate greater income or returns for the same or lower cost than an alternative.
- In financial markets, operational efficiency occurs when transaction costs and fees are reduced.

Source:

<https://www.investopedia.com/terms/e/efficiency.asp>

From Pope Francis

The economy should not be a mechanism for accumulating goods, but rather the proper administration of our common home. This entails a commitment to care for that home and to the fitting distribution of its goods among all. It is not only about ensuring a supply of food or “decent sustenance”.

Nor, although this is already a great step forward, is it to guarantee the three “L’s” of land, lodging and labor for which you are working. A truly communitarian economy, one might say an economy of Christian inspiration, must ensure peoples’ dignity and their “general, temporal welfare and prosperity”.

Pope John XXIII spoke this last phrase fifty years ago, and Jesus says in the Gospel that whoever freely offers a glass of water to one who is thirsty will be remembered in the Kingdom of Heaven.

All of this includes the three “L’s”, but also access to education, health care, new technologies, artistic and cultural manifestations, communications, sports and recreation.

A just economy must create the conditions for everyone to be able to enjoy a childhood without want, to develop their talents when young, to work with full rights during their active years and to enjoy a dignified retirement as they grow older.

It is an economy where human beings, in harmony with nature, structure the entire system of production and distribution in such a way that the abilities and needs of each individual find suitable expression in social life. You, and other peoples as well, sum up this desire in a simple and beautiful expression: “to live well”, which is not the same as “to have a good time”

Source: http://w2.vatican.va/content/francesco/en/speeches/2015/july/documents/papa-francesco_20150709_bolivia-movimenti-popolari.html

Does All Our Stuff Do Us Any Good?

From Schumacher: "An industrial system which uses forty per cent of the world's primary resources to supply less than six per cent of the world's population could be called efficient only if it obtained strikingly successful results in terms of human happiness, well-being, culture, peace, and harmony."

- Thorstein Veblen, the 20th Century economist who coined the terms "conspicuous consumption" and "invidious comparisons," pointed out how individuals use luxury goods to show off their social status. As early as 1899, Veblen observed that people were living on treadmills of wealth accumulation, competing incessantly with others but rarely increasing their own well-being.
- Research on U.S. standards of living between 1918 and 1988 found that as family income grew over time, families tended to emulate the spending patterns of richer families, spending a larger share of their income on luxury or positional goods. As Americans' incomes rose, they fulfilled their basic needs and then spent more and more money to showcase their wealth to others.
- Research reinforces something we've known since the turn of the 20th Century: luxury goods don't add to personal well-being and can even make people feel less happy. Feelings of social discontent and anxiety rise with growing inequality and keep people fighting to maintain their social position, leaving them unsatisfied with their new, fancier, lifestyles.

Source: Psychology Today



The Purpose of an Economy

Discussion:

- Is our economy efficient?
- Why or why not?
- How do we answer the three fundamental economic questions?
- How does Schumacher answer them?
- What does efficiency mean to Schumacher?
- Is efficiency the right measure to get the results Schumacher mentions above?
- Is efficiency a “rational” measure of economic progress?
- Is an efficient economy automatically equate to a just economy?
- What does a just economy look like?

What are the three
fundamental
economic questions?

What to produce?
How to produce?
For whom to produce?





THE END



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