E.F. Schumacher, *Small is Beautiful: Economics as if People Mattered* (New York: Harper, 1973)

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The Role of Economics

To say that our economic future is being determined by the economists would be an exaggeration; but that their influence, or in any case the influence of economics, is far-reaching can hardly be doubted. Economics plays a central role in shaping the activities of the modern world, inasmuch as it supplies the criteria of what is "economic" and what is "uneconomic," and there is no other set of criteria that exercises a greater influence over the actions of individuals and groups as well as over those of governments. It may be thought, therefore, that we should look to the economists for advice on how to overcome the dangers and difficulties in which the modern world finds itself, and how to achieve economic arrangements that vouchsafe peace and permanence.

How *does* economics relate to the problems discussed in the previous chapters? When the economist delivers a verdict that this or that activity is "economically sound" or "uneconomic," two important and closely related questions arise: First, what does this verdict mean? And, second, is the verdict conclusive in the sense that practical

action can reasonably be based on it?

Going back into history we may recall that when there was talk about founding a professorship for political economy at Oxford 150 years ago, many people were by no means happy about the prospect. Edward Copleston, the great Provost of Oriel College, did not want to admit into the University's curriculum a science "so prone to usurp the rest"; even Henry Drummond of Albury Park, who endowed the professorship in 1825, felt it necessary to make it clear that he expected the University to keep the new study "in its proper place." The first professor, Nassau Senior, was certainly not to be kept in an *inferior* place. Immediately, in his inaugural lecture, he predicted that the new science "will rank in public estimation among the first of moral sciences in interest and in utility" and claimed that "the pursuit of wealth... is, to the mass of mankind, the great source of moral improvement." Not all economists, to be sure, have staked their claims quite so high. John Stuart Mill (1806–73) looked upon political economy "not as a thing by itself, but as a fragment of a greater whole; a branch of social philosophy, so interlinked with all the other branches that its conclusions, even in its own peculiar province, are only true conditionally, subject to interference and counteraction from causes not directly within its scope." And even Keynes, in contradiction to his own advice (already quoted) that "avarice and usury and precaution must be our gods for a little longer still," admonished us not to "overestimate the importance of the economic problem, or sacrifice to its supposed necessities other matters of greater and more permanent significance."

Such voices, however, are but seldom heard today. It is hardly an exaggeration to say that, with increasing affluence, economics has moved into the very centre 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. In the current vocabulary of condemnation there are few words as final and conclusive as the word "uneconomic." If an activity has been branded as uneconomic, its right to existence is not merely questioned but energetically denied. Anything that is found to be an impediment to economic growth is a shameful thing, and if people cling to it, they are thought of as either saboteurs or fools. 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.

But what does it *mean* when we say something is uneconomic? I am not asking what most people mean when they say this; because that is clear enough. They simply mean that it is like an illness: you are better off without it. The economist is supposed to be able to diagnose the illness and then, with luck and skill, remove it. Admittedly, economists often disagree among each other about the diagnosis and, even more frequently, about the cure; but that merely proves that the subject matter is uncommonly difficult and economists, like other humans, are fallible.

No, I am asking what *it* means, *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. The method of economics does not, and cannot, produce any other meaning. Numerous attempts have been made to obscure this fact, and they have caused a very great deal of confusion; but the fact remains. Society, or a group or an individual within society, may decide to hang on to an activity or asset *for non-economic reasons*—social, aesthetic, moral, or political—but this does in no way

alter its *uneconomic* character. The judgement of economics, in other words, is an extremely *fragmentary* judgement; out of the larger number of aspects which in real life have to be seen and judged together before a decision can be taken, economics supplies only one—whether a thing yields a money profit *to those who undertake it* or not.

Do not overlook the words "to those who undertake it." It is a great error to assume, for instance, that the methodology of economics is normally applied to determine whether an activity carried on by a group within society yields a profit to society as a whole. Even nationalised industries are not considered from this more comprehensive point of view. Every one of them is given a financial target—which is, in fact, an obligation—and is expected to pursue this target without regard to any damage it might be inflicting on other parts of the economy. In fact, the prevailing creed, held with equal fervour by all political parties, is that the common good will necessarily be maximised if everybody, every industry and trade, whether nationalised or not, strives to earn an acceptable "return" on the capital employed. Not even Adam Smith had a more implicit faith in the "hidden hand" to ensure that "what is good for General Motors is good for the United States."

However that may be, about the *fragmentary* nature of the judgements of economics there can be no doubt whatever. Even within the narrow compass of the economic calculus, these judgements are necessarily and *methodically* narrow. For one thing, they give vastly more weight to the short than to the long term, because in the long term, as Keynes put it with cheerful brutality, we are all dead. And then, second, they are based on a definition of cost which excludes all "free goods," that is to say, the entire God-given environment, except for those parts of it that have been privately appropriated. This means that an activity can be economic although it plays hell with the environment, and that a competing activity, if at some cost it protects and conserves the environment, will be uneconomic.

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.*

Another way of stating this is to say that economics deals with goods and services from the point of view of the market, where willing buyer meets willing seller. The buyer is essentially a bargain hunter; he is not concerned with the origin of the goods or the conditions under which they have been produced. His sole concern is to obtain the best value for his money.

The market therefore represents only the surface of society and its significance relates to the momentary situation as it exists there and then. There is no probing into the depths of things, into the natural or social facts that lie behind them. In a sense, the market is the institutionalisation of individualism and non-responsibility. Neither buyer nor seller is responsible for anything but himself. It would be "uneconomic" for a wealthy seller to reduce his prices to poor customers merely because they are in need, or for a wealthy buyer to pay an extra price merely because the supplier is poor. Equally, it would be "uneconomic" for a buyer to give preference to home-produced goods if imported goods are cheaper. He does not, and is not expected to, accept responsibility for the country's balance of payments.

As regards the buyer's non-responsibility, there is, significantly, one exception: the buyer must be careful not to buy stolen goods. This is a rule against which neither ignorance nor innocence counts as a defence and which can produce extraordinarily unjust and annoying results. It is nevertheless required by the sanctity of private property, to which it testifies.

To be relieved of all responsibility except to oneself, means of course an enormous simplification of business. We can recognise that it is practical and need not be surprised that it is highly popular among businessmen. What may cause surprise is that it is also considered virtuous to make the maximum use of this freedom from responsibility. If a buyer refused a good bargain because he suspected that the cheapness of the goods in question stemmed from exploitation or other despicable practices (except theft), he would be open to the criticism of behaving "uneconomically," which is viewed as nothing less than a fall from grace. Economists and others are wont to treat such eccentric behaviour with derision if not indignation. The religion of economics has its own code of ethics, and the First Commandment is to behave "economically"—in any case when you are producing, selling, or buying. It is only when the bargain hunter has gone home and becomes a consumer that the First Commandment no longer applies: he is then encouraged to "enjoy himself" in any way he pleases. 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 market place, 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."

To press non-economic values into the framework of the economic calculus, economists use the method of cost/benefit analysis. This is generally thought to be an enlightened and progressive development, as it is at least an attempt to take account of costs and benefits which might otherwise be disregarded altogether. In fact, however, it is a procedure by which the higher is reduced to the level of the lower and the priceless is given a price. It can therefore never serve to clarify the situation and lead to an enlightened decision. All it can do is lead to self-deception or the deception of others; for to undertake to measure the immeasurable is absurd and constitutes but an elaborate method of moving from preconceived notions to foregone conclusions; all one has to do to obtain the desired results is to impute suitable values to the immeasurable costs and benefits. The logical absurdity, however, is not the greatest fault of the undertaking: what is worse, and destructive of civilisation, is the pretence that everything has a price or, in other words, that money is the highest of all values.

Economics operates legitimately and usefully within a "given" framework which lies altogether outside the economic calculus. We might say that economics does not stand on its own feet, or that it is a "derived" body of thought—derived from meta-economics. If the economist fails to study meta-economics, or, even worse, if he

remains unaware of the fact that there are boundaries to the applicability of the economic calculus, he is likely to fall into a similar kind of error as that of certain medieval theologians who tried to settle questions of physics by means of biblical quotations. Every science is beneficial within its proper limits, but becomes evil and destructive as soon as it transgresses them.

The science of economics is "so prone to usurp the rest"—even more so today than it was 150 years ago, when Edward Copleston pointed to this danger—because it relates to certain very strong drives of human nature, such as envy and greed. All the greater is the duty of its experts, the economists, to understand and clarify its limitations, that is to say, to understand meta-economics.

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 the next chapter, I shall attempt to show how the conclusions and prescriptions of economics change as the underlying picture of man and his purpose on earth changes. 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. As I have emphasised already, on the market all goods are treated the same, because the market is essentially an institution for unlimited bargain hunting, and this means that it is inherent in the methodology of modern economics, which is so largely market-oriented, to ignore man's dependence on the natural world. Professor E. H. Phelps Brown, in his

Presidential Address to the Royal Economic Society on "The Underdevelopment of Economics," talked about "the smallness of the contribution that the most conspicuous developments of economics in the last quarter of a century have made to the solution of the most pressing problems of the times," and among these problems he lists "checking the adverse effects on the environment and the quality of life of industrialism, population growth and urbanism."

As a matter of fact, to talk of "the smallness of the contribution" is to employ an euphemism, as there is no contribution at all; on the contrary, it would not be unfair to say that economics, as currently constituted and practised, acts as a most effective barrier against the understanding of these problems, owing to its addiction to purely quantitative analysis and its timorous refusal to look into the real nature of things.

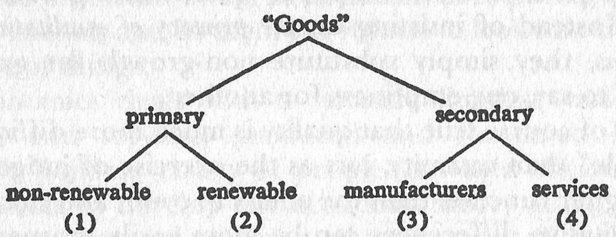
Economics deals with a virtually limitless variety of goods and services, produced and consumed by an equally limitless variety of people. It would obviously be impossible to develop any economic theory at all, unless one were prepared to disregard a vast array of qualitative distinctions. But it should be just as obvious that the total suppression of qualitative distinctions, while it makes theorising easy, at the same time makes it totally sterile. Most of the "conspicuous developments of economics in the last quarter of a century" (referred to by Professor Phelps Brown) are in the direction of quantification, at the expense of the understanding of qualitative differences. Indeed, one might say that economics has become increasingly intolerant of the latter, because they do not fit into its method and make demands on the practical understanding and the power of insight of economists, which they are unwilling or unable to fulfil. For example, having established by his purely quantitative methods that

the Gross National Product of a country has risen by, say, five per cent, the economist-turned-econometrician is unwilling, and generally unable, to face the question of whether this is to be taken as a good thing or a bad thing. He would lose all his certainties if he even entertained such a question: growth of GNP must be a good thing, irrespective of what has grown and who, if anyone, has benefited. The idea that there could be pathological growth, unhealthy growth, disruptive or destructive growth, is to him a perverse idea which must not be allowed to surface. A small minority of economists is at present beginning to question how much further "growth" will be possible, since infinite growth in a finite environment is an obvious impossibility; but even they cannot get away from the purely quantitative growth concept. Instead of insisting on *the primacy of qualitative distinctions,* they simply substitute non-growth for growth, that is to say, one emptiness for another.

It is of course true that quality is much more difficult to "handle" than quantity, just as the exercise of judgement is a higher function than the ability to count and calculate. Quantitative differences can be more easily grasped and certainly more easily defined than qualitative differences; their concreteness is beguiling and gives them the appearance of scientific precision, even when this precision has been purchased by the suppression of vital differences of quality. The great majority of economists is still pursuing the absurd ideal of making their "science" as scientific and precise as physics, as if there were no qualitative difference between mindless atoms and men made in the image of God.

The main subject matter of economics is "goods." Economists make some rudimentary distinctions between categories of goods from the point of view of the *purchaser,* such as the distinction between consumers' goods and producers' goods; but there is virtually no attempt to take cognisance of what such goods actually are; for instance, whether they are man-made or God-given, whether they are freely reproducible or not. Once any goods, whatever their meta-economic character, have appeared on the market, they are treated the same, as objects for sale, and economics is primarily concerned with theorising on the bargain hunting activities of the purchaser.

It is a fact, however, that there are fundamental and vital differences between various categories of "goods" which cannot be disregarded without losing touch with reality. The following might be called a minimum scheme of categorisation:



There could hardly be a more important distinction, to start with, than that between primary and secondary goods, because the latter presuppose the availability of the former. An expansion of man's ability to bring forth secondary products is useless unless preceded by an expansion of his ability to win primary products from the earth; for man is not a producer but only a converter, and for every job of conversion he needs primary products. In particular, his power to convert depends on primary energy, which immediately points to the need for a vital distinction within the field of primary goods, that between non-renewable and renewable. As far as secondary goods

are concerned, there is an obvious and basic distinction between manufactures and services. We thus arrive at a minimum of four categories, each of which is *essentially* different from each of the three others.

The market knows nothing of these distinctions. It provides a price tag for all goods and thereby enables us to pretend that they are all of equal significance. Five pounds' worth of oil (category 1) equals five pounds' worth of wheat (category 2), which equals five pounds' worth of shoes (category 3) or five pounds' worth of hotel accommodation (category 4). The sole criterion to determine the relative importance of these different goods is the rate of profit that can be obtained by providing them. If categories 3 and 4 yield higher profits than categories 1 and 2, this is taken as a "signal" that it is "rational" to put additional resources into the former and withdraw resources from the latter.

I am not here concerned with discussing the reliability or rationality of the market mechanism, of what economists call the "invisible hand." This has endlessly been discussed, but invariably without attention to the *basic incommensurability* of the four categories detailed above. It has remained unnoticed, for instance—or if not unnoticed, it has never been taken seriously in the formulation of economic theory—that the concept of "cost" is essentially different as between renewable and non-renewable goods, as also between manufactures and services. In fact, without going into any further details, it can be said that economics, as currently constituted, fully applies only to manufactures (category 3), but it is being applied without discrimination to all goods and services, because an appreciation of the essential, qualitative differences between the four categories is entirely lacking.

These differences may be called meta-economic, inasmuch as they have to be recognised before economic analysis begins. Even more important is the recognition of the existence of "goods" which never appear on the market, because they cannot be, or have not been, privately appropriated, but are nonetheless an essential precondition of all human activity, such as air, water, the soil, and in fact the whole framework of living nature.

Until fairly recently the economists have felt entitled, with tolerably good reason, to treat the entire framework within which economic activity takes place as *given*, that is to say, as permanent and indestructible. It was no part of their job and, indeed, of their professional competence, to study the effects of economic activity upon the framework. Since there is now increasing evidence of environmental deterioration, particularly in living nature, the entire outlook and methodology of economics is being called into question. The study of economics is too narrow and too fragmentary to lead to valid insights, unless complemented and completed by a study of meta-economics.

The trouble about valuing means above ends—which, as confirmed by Keynes, is the attitude of modern economics—is that it destroys man's freedom and power to choose the ends he really favours; the development of means, as it were, dictates the choice of ends. Obvious examples are the pursuit of supersonic transport speeds and the immense efforts made to land men on the moon. The conception of these aims was not the result of any insight into real human needs and aspirations, which technology is meant to serve, but solely of the fact that the necessary technical means appeared to be available.

As we have seen, economics is a "derived" science which accepts instructions from what I call meta-economics. As the instructions are changed, so changes the content of economics. In the following chapter, we shall explore what economic laws and what definitions of the concepts

"economic" and "uneconomic" result when the meta-economic basis for Western materialism is abandoned and the teaching of Buddhism is put in its place. The choice of Buddhism for this purpose is purely incidental; the teachings of Christianity, Islam, or Judaism could have been used just as well as those of any other of the great Eastern traditions.