







Part I

At What Price Growth?





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 wellbeing 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.¹

—E. F. Schumacher





I

Beginnings and Ends

What is economics? Since that discipline was the subject of *Small Is Beautiful*, according to the book's subtitle, it is appropriate to begin by defining our terms. Yet at once we are in danger of falling into a crucial error, for economics as it is commonly defined has a different focus from that which concerns Schumacher. *Collins English Dictionary* defines the term as "the social science concerned with the production and consumption of goods and services and the analysis of the commercial activities of a society." According to this conventional definition, people are either producers or (as individuals, more likely) consumers of goods and services. For Schumacher, this understanding of personhood is clearly incomplete. The discipline of economics must be ordered to an end that is determined by factors more than purely economic. Indeed, Schumacher argued that the science of economics should be wholly devoted to this truth.

People matter because they are not just matter. They are spirit; they possess a soul. This was central to Schumacher's





Small Is Still Beautiful



conception of economics, as was confirmed by his choice of the following quotation from the economic historian R.H. Tawney as the epigraph at the beginning of *Small Is Beautiful*:

The most obvious facts are most easily forgotten. Both the existing economic order and too many of the projects advanced for reconstructing it break down through their neglect of the truism that, since even quite common men have souls, no increase in material wealth will compensate them for arrangements which insult their self-respect and impair their freedom.

Tawney concluded with the assertion that any “reasonable estimate of economic organization ... must satisfy criteria which are not purely economic.” There was, in fact, no such thing as a purely economic problem because economics deals with human beings. Put simply, economic problems cannot be solved using purely economic methods. This conundrum was at the heart of Schumacher’s book and it is the same conundrum facing any discussion of economics today.

The Death of Economics



The inability of economics to address the deepest issues of the day exposes its inadequacy and insufficiency and has caused some economists to question the very nature of their profes-



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sion. Paul Ormerod studied economics at Cambridge and Oxford before becoming Head of the Economic Assessment Unit at *The Economist*. For ten years he was director of economics at the Henley Centre for Forecasting and he has been a visiting professor of economics at London and Manchester. In *The Death of Economics*² Ormerod exposed “the highly tenuous nature of modern economic orthodoxy.” He argued that conventional economics offers “a very misleading view of how the world actually operates, and that it needs to be replaced.” His fellow economists had, Ormerod wrote, “erected around the discipline a barrier of jargon and mathematics which makes the subject difficult to penetrate for the non-initiated.” As a result, even intelligent members of the public found economics intimidating, enabling professional “experts” to pronounce with great confidence in the media without fear of contradiction or recrimination. “Yet orthodox economics is in many ways an empty box. Its understanding of the world is similar to that of the physical sciences in the Middle Ages. A few insights have been obtained which will stand the test of time, but they are very few indeed, and the whole basis of conventional economics is deeply flawed.”

To illustrate his point, Ormerod singles out the woeful inaccuracy of economic forecasts. In a twelve-month period in 1993–94 forecasters had failed to predict the Japanese recession, the strength of the American recovery, the depth of the collapse in the German economy and the turmoil in the



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European Exchange Rate Mechanism. This appalling inaccuracy on the part of economic “experts” should have led to their forecasts becoming the subject of open derision. “Yet to the true believers, within the profession itself, the ability of economics to understand the world has never been greater,” writes Ormerod.

There is no shortage of true believers. Economics dominates political debate to such an extent that it is almost impossible to pursue a successful political career in most western countries without being able to repeat parrot-fashion the latest fashionable economic orthodoxies. The media seek out the views of economists on Wall Street and in the City of London, anxious that the viewing public should be informed of the impact of the latest statistic on the entire economy over the coming years. With the status of economics so much in the ascendant it is scarcely surprising that the number of career-minded students seeking to major in economics grew dramatically during the 1980s and ’90s.

Economics, it seems, is almost attaining pseudo-religious status, with conformity essential and heresy shunned. It has become *iconomics*, before which every knee must bend. The dissident voice of Paul Ormerod is like the lone voice in the cheering crowd who dared suggest that the emperor was wearing no clothes. Ormerod exposes a simple truth: “Good economists know, from work carried out within their discipline, that the foundations of their subject are virtually nonexistent.”

Pandora's Box

Ormerod's claim that conventional economics "is in many ways an empty box" is partly right. But perhaps it is better thought of as Pandora's box, full of unforeseen dangers. In both cases the unwise opening of the box has unleashed the objects of desire upon the earth, dispersing them to play havoc among humanity so that nothing remains except Hope. If such an analogy appears a trifle melodramatic, a good hard look at the facts will show that even the power of myth does not do justice to the truth.

The unleashing of desire in the form of consumerism is today stretching nature's tolerance to the very limits, threatening global ecological turmoil. The accelerating depletion of the earth's finite resources to meet ever-expanding demands for energy and consumer goods has no foreseeable end. The worship of economic growth as an end in itself is based on the highly questionable assumption that there are no limits to the planet's ability to sustain it. Yet none of these pressing issues are addressed by conventional economics. It doesn't have the answers because it doesn't even ask the questions.

That man exists for consumption remains unquestioned. The health of persons, communities, and the land itself may be sacrificed so that desires may be satisfied more quickly, more cheaply, and more efficiently. As Wendell Berry writes in *What Are People For?*, since we have ourselves been reduced to "economic units," all other "creatures and things may be



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considered purely as economic units or integers of production.” We are members of, and have made all creation into, a “covetous machine.” To amend a well-worn cliché, there are lies, damned lies, and conventional economics.







The real issue—or, to be more precise, the issue that I regard as dominant today—is whether we are ready seriously to recognize that the collective pursuit of economic growth, which depends, in the main, on scientific advance and technological progress, has begun to have complex and far-reaching consequences both on the biosphere and on the “sociosphere,” consequences that are by no means entirely benign. They demand the most searching study and surmise. For it is now reasonable to believe that, despite the abundance of man-made goods produced by continued economic growth, its net effect on human health and happiness could be adverse and possibly disastrous.¹

—E. J. Mishan

