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**Economics and the Good Life:**

**Keynes and Schumacher**

**Abstract**

**It is, I think, interesting to compare the views of E. F. Schumacher and J. M. Keynes on the ethical aspects of economics – both the economic systems of which they were a part and economics as a subject. Both agreed that economics (as commonly understood and taught) applied to only a limited sphere of life. They agreed about the role of profits, the market and the love of money. And they both believed that there was much more to life than getting and spending. For Keynes, economic activity was the means to bring society to a position where the good life could be enjoyed. Schumacher was even more ambitious: he thought economic activity should be made part of the good life.**

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## 1.0 Introduction

I am going to interpret ‘ethics’ in its broader sense, i.e. a system of moral principles, rather than in the narrower (but no less important) sense of principles of individual conduct (the latter, after all, depend on the former) and ask what principles two thoughtful economists believed should guide our economic life.

Recently I was invited to participate in a symposium celebrating the centenary of the birth of E F Schumacher<sup>1</sup> (Chick 2011). Re-reading *Small is Beautiful* (Schumacher 1973, hereafter SIB) for the first time in many years, I was struck by the similarities to and differences from Keynes’s approach to the ethical dimension of economic life. Both K and S (as I shall sometimes refer to them) were interested in where the economy was heading over a long time horizon and in the ethical implications of its direction. They were both concerned with values, and in many ways their values were similar, but they came to startlingly different solutions. For those of you who know Schumacher’s book well, it might surprise you that I argue that they had similar values, for he is sharply critical of Keynes.

I shall start with Keynes’s stance and then introduce Schumacher’s and make the comparison. A short evaluation concludes.

## 2.0 Keynes

### 2.1 *The Economic Problem*

In his Preface to *Essays in Persuasion* (1931, CW IX), Keynes characterises the longer view taken in the last four chapters:

‘[t]he author is looking onto the more distant future ... [H]ere emerges more clearly what is in truth *the central thesis throughout* – the profound conviction that the economic problem[,] ... the problem of want and poverty and the economic struggle between classes and nations, is nothing but a frightful muddle, a transitory and unnecessary muddle. For the western world already has the resources and the technique ... capable of reducing the economic problem ... to a position of secondary importance. (CW IX: xviii, emphasis added and Keynes’s emphasis suppressed)

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<sup>1</sup> I am grateful to Andrew Simms of the new economic foundation for that invitation.

His perspective is foreshadowed in ‘Am I a Liberal? (1925, CW IX), where he cites the three stages of development outlined by J. R. Commons<sup>2</sup>: the eras of scarcity, abundance and stabilisation. He argues that millenia of scarcity, where survival was the central issue, began to turn to abundance with the advances in the sixteenth century, reaching its apogee in the nineteenth. This was the period of ‘the maximum of individual liberty [and] the minimum of coercive control through government’ (p. 304)<sup>3</sup>. But by 1925 he discerned a turn toward ‘a regime which deliberately aims at controlling and directing economic forces in the interests of social justice and social stability ...’ (p. 305).

The third epoch sounds rather alarming, and he does speak of its abuses, fascism and ‘Bolshevism’, but there is also a benign interpretation. The nineteenth century went for economic growth and paid little attention to questions of equity and distribution. Society could now afford to concern itself with these matters. (Post-war governments, Attlee’s in particular, concerned themselves with these matters, but Margaret Thatcher returned us to the nineteenth century where we have remained since.)

Although his stance in ‘Am I a Liberal’ seems to suggest that we have already achieved sufficient material wealth, five years later, in ‘Economic Possibilities for our Grandchildren’ (EPG) (1930, CW IX),<sup>4</sup> it seems that this position was still some way off. Keynes wrote that the problem then current (in Britain or perhaps the western economics – he just says ‘we’) was technological unemployment (what a different explanation he will offer six years later!), but ‘[t]his is only a temporary phase of maladjustment. ... [I]n the long run ... *mankind is solving its economic problem*’ (p. 325, his italics). Over the page he makes a prediction:

I draw the conclusion that, assuming no important wars and no important increase in population, the *economic problem* may be solved ... within a hundred years. This means that the economic problem is not ... *the permanent problem of the human race*. (EPG, p. 326, his italics.)

Well, there was an important war, and several less important ones, and population has increased – in the western economies largely by immigration but

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<sup>2</sup> As was usual in those days, he gives no reference. Well-read people were supposed to know.

<sup>3</sup> Where page references occur in the same paragraph as the main citation, ‘ibid.’ is to be taken as read.

<sup>4</sup> In the case of material reprinted in the *Collected Writings* I shall give the date of original publication followed by citation of the reprint as CW, volume number and, where relevant, page number in CW. *The General Theory* will be cited as GT and ‘Economic Possibilities’ as EPG..

worldwide by a significant amount. Without these factors, we could, according to this estimate, expect to arrive at Bliss twenty years from now. He concerns himself with whether the habit of getting and spending can be transformed into something more pleasurable (or at least he thinks is more pleasurable), about which he is mildly despairing, but he recommends ‘making mild preparations [by] encouraging ... the arts of life as well as the activities of [economic] purpose (EPG, p. 331).

## **2.2 Capital satiety**

By the time of *The General Theory* (GT) (1936, CW VII), the focus had changed slightly. Keynes’s ‘method of expectations’ made investment in productive capital the autonomous variable and thus the driving force of the economy. But he issued a warning which Keynesians in the era of ‘fine tuning’ universally ignored: ‘Each time we secure to-day's equilibrium by increased investment we are aggravating the difficulty of securing equilibrium tomorrow (GT, p. 105). This applies both to the increasing gap between consumption and income as the economy expands – a short-period proposition and the context of the remark – and to the long period, when changes in the capital stock are considered.

Very little of the *General Theory* is concerned with what happens when the effects of investment on the supply of output and the incentive to invest in future are allowed into the analysis. This is the province of the long period. Long-period theory is concentrated in Chapter 17, which many commentators found daunting at least and irrelevant at worst; it has thus not received as much attention as it deserves. As capital accumulates (that is, as production becomes more capital-intensive), the expected productivity and profitability (the marginal efficiency of capital, *mec*) of further accumulation tends to decline. The offsetting factors are technical change and population growth, factors held constant in *The General Theory*. Without these offsets, eventually, the declining *mec* will eventually reach equality with the rate of interest, at which point net new investment is no longer profitable and stops. On this conclusion, Marx, Keynes and neoclassical economists agree, though the analyses by which they reached it differ.

Keynes’s concern in Chapter 17 was that, because of liquidity preference and the non-reproducibility of money, the rate of interest would be set too high; then the point of nil net investment would be reached at a level of income where

positive saving is still desired. The only remedy is for income to fall until the desire to save is reduced to zero, a position which implies unemployment (GT, pp. 105, 218).

But there is another strand of thought about accumulation in the GT: that there would come a time when that capital was sufficient to provide for our needs, in the richer countries. Or perhaps that should be rephrased: if we could take steps to bring the rate of interest down so that unemployment was not a long-period outcome, we could look forward to a sufficiency of productive capital. He was not averse to a zero-growth economy, provided only that it was brought about at a rate of interest low enough to allow full employment::

I am myself impressed with the great social advantages of increasing the stock of capital until it ceases to be scarce. (GT, p. 327)

Indeed, Robert Chernomas (1984) wrote an article whose purpose was to argue that '[T]he *General Theory* ... is, from beginning to end, a tract for a post-scarcity society' (p. 1007).

Keynes realised, however, that there would be dislocations, though this example is rather gentle:

[A] little reflection will show what enormous social changes would result from a gradual disappearance of a rate of return on accumulated wealth. A man would still be free to accumulate his earned income with a view to spending it at a later date. But his accumulation would not grow. He would simply be in the position of Pope's father, who, when he retired from business, carried a chest of guineas with him to his villa at Twickenham and met his household expenses from it as required. (GT, p.: 221)

(I have explored the less gentle dislocations and resistance to them in Chick 2009 and 1978.)

In 'National Self-sufficiency' (1933, CW XXI, p. 240) Keynes speaks of the necessity for the rate of interest to fall 'towards vanishing point within the next thirty years' if the threat of long-term underemployment is to be avoided. In the GT Keynes provided another estimate of when this might come about: if full employment could be sustained 'in countries so wealthy as Great Britain or the United States', a situation of 'full investment' (i.e. capital satiety) 'might be reached ... within twenty-five years or less' (GT, p. 324). These estimates bring

us, without the War, to 1961-66! (I wonder what caused him so drastically to revise down his estimate from EPG, especially given the rise of Hitler in the interval.)

### 2.3 Keynes's Values

The reason that Keynes was unperturbed lay in his understanding of what economics was for: it lay in the value system that we have already seen in EPG and know from other writings on, for example, the arts. To neoclassical economists, as well as to capitalists, economic growth is almost an end in itself. At best growth is 'good' because it provides employment. But Joan Robinson long ago reminded us (Robinson 1972: 8) to ask 'what is employment for?' What is economic activity for? First, to provide food, clothing and shelter, but after that, what? To Keynes, economic activity was merely a means to the end: a good life, where there is time for 'friendship and the contemplation of beautiful objects' (Moore 1922). He was content with the economics of enough – enough to provide for needs so that the good things of life could be enjoyed.<sup>5</sup>

A recent book revisited EPG (Pecchi and Piga, 2008). Its general tone was 'How could Keynes have got it so wrong? Te he! Silly man.' No one took this value system seriously and explored why others might not share it or what forces might be ranged against it. Many remarked on the seeming insatiability of consumers, though ever since *The Hidden Persuaders* (Packard 1957) we have been rather knowing about advertising and Duesenberry (1967) taught us about 'positional consumption' – though Keynes knew that too:

Now it is true that the needs of human beings may seem to be insatiable. But they fall into two classes – those needs which are absolute in the sense that we feel them whatever the situation of our fellow human beings to be, and those which are relative in the sense that we feel them only if their satisfaction lifts us above ... our fellows. (EPG, p. 326)

Having raised the point, he concentrates on the satiability of the first kind of need. The authors in the Pecchi and Piga volume concentrate on the second, writing as if Keynes never broached the issue. I do not think this passage was ever quoted. No one asked why Keynes, having recognised positional consumption, then ignored it. I would hazard the guess that it did not fit with his values and that he underestimated how rare his values were. It takes self-

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<sup>5</sup> In his own life, he earned far more than was 'necessary'. But he spent much of it on cultural pursuits, including treats for his friends, and he worked for Cambridge University without pay after the first few years.

confidence to dismiss keeping up with the Joneses and base ones self-esteem on other values Keynes had plenty of self-confidence - and plenty of non-material values.

But how to reach the post-scarcity economy? For Keynes, economic growth was a means to an end: a reasonable standard of living for all (at least in the west), which he looked forward to in EPG. When everybody is rich, we shall

once more value ends above means and prefer the good to the useful. But beware! The time for all this is not yet. For at least another hundred years we must pretend to ourselves and to others that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little while still, for *only they* can lead us out of the tunnel of economic necessity into light (EPG, p. 331. Italics added).

This enraged Schumacher: Keynes is saying that '[e]thical considerations are not merely irrelevant, they are an actual hindrance ... The road to heaven is paved with bad intentions (p. 10).' This was the 'antithesis of wisdom'.

### **3.0 Schumacher**

#### **3.1 Means and ends**

Keynes, Schumacher wrote (SIB, pp. 15-16),

advised us [in EPG] that the time was not yet for a 'return to some of the most sure and certain principles of religion and traditional virtue – that avarice is a vice, that the exaction of usury is a misdemeanour, and the love of money is detestable'. Economic progress, he counselled, is obtainable only if we employ those powerful human drives of selfishness, which religion and traditional wisdom universally call upon us to resist. The modern economy is propelled by a frenzy of greed and indulges in an orgy of envy, and these are not accidental features but the very causes of its expansionist success. ...

If human vices such as greed and envy are systematically cultivated, the inevitable result is nothing less than a collapse of intelligence. A man driven by greed or envy loses the power of seeing things as they really are, ... and his very successes become failures.

Here we have a classic case of the conflict between means and ends. Keynes is prepared to put up with some unpleasant human qualities to achieve his desired end; Schumacher is not. Keynes does not confront, as Schumacher does, the

possibility that having cultivated these qualities to get where one wants to go, it may become impossible to see that they were only means; they could become entrenched; worse, they could dictate ends (SIB, p. 31). And at the level of the individual they are corrosive.

Keynes, however, agreed that these values were corrosive. He muses, in his review (1928, CW IX) of H. G. Wells's *The World of William Clissold*, on why 'practical men find it more amusing to make money than to join the 'open conspiracy' to create a better society:

They lack altogether the kind of motive, the possession of which, if they had it, could be expressed by saying they had a creed. ... That is why ...they fall back on the grand substitute motive, the perfect *ersatz*, the anodyne for those who, in fact, want nothing at all – money. (pp. 319-20)

Perhaps in EPG Keynes was being ironic. He had a fondness for irony – the GT is full of it and some of it has badly backfired (notably the bit about burying banknotes in bottles and digging them up again, p. 129). He would have been familiar with the Principle of Unripe Time from the brilliantly satirical *Microcosmographica Academica* (Cornford 1908), and what is this if not a classic example? He even wrote 'the time is not yet' leaving you to fill in the inevitable 'ripe'. Catephores (1991, p. 24)<sup>6</sup> also refers to the 'facetious style' of EPG. Even Schumacher notes that 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 (SIB, p. 24)

But Schumacher takes him at face value, and so shall we, at least for now.

After all, Keynes did say that it was *only* avarice, usury and precaution which could bring us to the Promised Land where the good life could be enjoyed. Schumacher, by contrast, wanted to reorganise our economic life to make that life *part* of the good life. This pertained especially to work and the environment. Indeed it is with the environment that he begins his critique of both economic life and economics as a subject:

One of the most fateful errors of our age is the belief that 'the problem of production' has been solved. ... The arising of this error, so egregious and

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<sup>6</sup> This brilliant, insightful essay deserves to be much better known.

so firmly rooted, is closely connected with ... man's attitude to nature. ... Modern man does not experience himself as a part of nature but as an outside force destined to dominate and conquer it. He even talks of a battle with nature, forgetting that, if he won the battle, he would find himself on the losing side. (SIB, p. 2)

The problem is that the earth's resources are treated as income rather than as capital.

Where Keynes viewed production as unambiguously desirable because it gave us prosperity and employment, Schumacher saw the rapacious side of industry. It was not only the environment which it laid waste:

the modern industrial system ... lives on irreplaceable capital which it cheerfully treats as income. I specified three categories of such capital: fossil fuels [as an example of resource depletion], the tolerance margins of nature, and the human substance. (p. 7)

### **3.2 Work**

Where Keynes saw industry as benign and unemployment as destructive of human dignity, Schumacher emphasised the soul-destroying quality of much employment. On this matter he takes particular note of the Buddhist mode of economic organisation, learned from travels in Burma.<sup>7</sup>

The Buddhist point of view takes the function of work to be at least threefold: to give a man a chance to utilise and develop his faculties; to enable him to overcome his egocentredness by joining with other people in a common task; and to bring forth the goods and services needed for a becoming existence. Again, the consequences that flow from this view are endless. To organise work in such a manner that it becomes meaningless, boring, stultifying, or nerve-racking for the worker would be little short of criminal: it would indicate a greater concern with goods than with people, an evil lack of compassion and a soul-destroying degree of attachment to the most primitive side of this worldly existence. Equally, to strive for leisure as an alternative to work would be considered a complete misunderstanding of one of the basic truths of human existence, namely that work and leisure are complementary parts of the same living process and cannot be separated without destroying the joy of work and the bliss of leisure. ...

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<sup>7</sup> He points out that the principles he expounds are shared by many other religions, and cites Pius XI and the Anglican theologian (and mystery writer) Dorothy L. Sayers in this connection as well.

If a man has no chance of obtaining work he is in a desperate position, not simply because he lacks an income but because he lacks this nourishing and enlivening factor of disciplined work which nothing can replace. ...

The very start of Buddhist economic planning would be a planning for full employment, and the primary purpose of this would in fact be employment for everyone who needs an 'outside' job: it would not be the maximisation of employment nor the maximisation of production. (pp. 33-35)

But no man is perfect. In his next sentence he declares, 'Women, on the whole, do not need an "outside" job...', thus denying to half the human race access to 'nourishing and enlivening work which nothing can replace'!

Apart from that spectacular lapse, Schumacher is of course right: work should contribute to self-realisation and be part of the good life, not something to be viewed as outside the good life and thus minimised. But, as he points out, the way economics treats work encourages the latter evaluation. Work is a disutility and a cost, so it is in the interest of both producer and worker to do as little as possible to produce the desired output. To speak thus of the desired output is an illustration of another of his criticisms of economics, that it puts goods before people:

Economists' obsession with GDP 'shift[s] the emphasis from the worker to the product of work. From a Buddhist point of view, this is standing the truth on its head by considering goods as more important than people and consumption as more important than creative activity. (p. 34)

But what if creative activity gave rise to goods nobody wanted?

### ***3.3 The market***

But of course almost anything can be sold at some price, especially with a bit of hidden persuasion. Schumacher has a wonderful time lambasting 'the market' and its place in economics:

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 ... 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? : 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 (p.24).

And he hates that. So did Keynes:

The nineteenth century carried to extravagant lengths the criterion of what one can call for short 'the financial results', as a test of the advisability of any course of action sponsored by private or by collective action. The whole conduct of life was made into a sort of parody of an accountant's nightmare. ...

The same rule of self-destructive financial calculation governs every walk of life. We destroy the beauty of the countryside because the unappropriated splendours of nature have no economic value. We are capable of shutting off the sun and the stars because they do not pay a dividend. (1933, CW XXI, pp. 239-40) (See also GT, p. 129.)

There are really two connected issues here: the distinction between private profit and social usefulness on the one hand and between intrinsic value and market price, but both K and S agree that to apply the criterion of market price and profitability to everything is a vast mistake . (Oscar Wilde's definition of a cynic springs to mind.)

Markets value everything by their exchange value' their intrinsic value is of no matter. Schumacher characterised the market as the 'institutionalisation of individualism and non-responsibility' (p. 25).

In the example of Buddhist organisation, goods are produced locally for local use, not for an impersonal market. This implies a good correspondence between use-value and exchange value which both producers and consumers know and understand, so the problem I posed as the lead into this section is unlikely to be serious.

### **3.4 Localism**

Schumacher had several aims: to restore human dignity, to bring work into the good life, to preserve the planet. His prescription, which, if successful, would

have gone some way to achieve these aims, was to develop cheap technology that is able to be used on a small scale and encourage creativity:

so that people have a chance to enjoy themselves while they are working, instead of working solely for their pay packet and hoping, usually forlornly, for enjoyment solely during their leisure time.(p. 8)

Such a programme would not be suitable for all activities, naturally, nor was that what Schumacher intended (Simms, 2011). But where it was possible, it could help to bring work into the good life.

I have no doubt that it is possible to give a new direction to technological development, a direction that shall lead it back to the real needs of man, and that also means: to the actual size of man. Man is small, and, therefore, small is beautiful (SIB, p. 111).

A noble aim, but now further away than ever. But that is a story for another day.

#### **4.0 Conclusion**

Both Keynes and Schumacher were concerned with the Good Life, and many elements in what they considered that life to be were probably similar. But it cannot be doubted that Schumacher's vision included a factor which Keynes, despite his evident enjoyment in his own work, did not see as part of the good life in general. It seems that he followed the presupposition of his subject, that work was only a chore and a cost.

The result, for Schumacher, was a much more radical proposal. Keynes spoke of the 'transformation of society' (CW XXI, p. 240), when there was enough output for all and enough capital to make it, but the structure of production was something he did not question. This may be a manifestation of his pragmatism; Schumacher does come across as utopian by comparison.

The lesson which I found most important is the insidious quality of the assumptions of economics. Schumacher is spot on.

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