

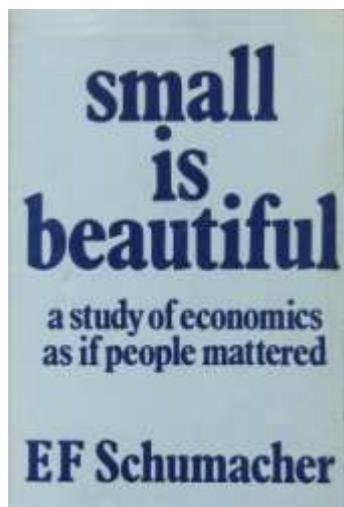
Business & Environmental Ethics

& the influence of

E. F. Schumacher (1911-1977)

Author of

'Small is Beautiful' A Study of Economics as if People Mattered.



SDL 2011

¹ The cover of the first edition of the book.

Introduction

'Small is Beautiful A Study of Economics as if People Mattered'

This book was published in 1973, with a paperback edition issued in 1974. The book was an instant and influential classic and has been listed in the top 100 books of the twentieth century². It was written by E. F. Schumacher – but who was he and what was his book all about? What is so important about *Small is Beautiful* in relation to Business Ethics?

Schumacher – Early Life

Schumacher was German. As a boy he showed a flair for English and he came to England to study and develop his grasp of the language. After studying economics in Germany in 1930 he won a Rhodes scholarship to study at Oxford. He studied for a Diploma in Economic and Political Science, which he achieved in 1931, and then he started work on a B.Litt. Because his work involved a study of the use of the Gold Standard he managed to get an extension on his deadline so he could go to New York (1932-33) to study closer to Wall Street! He was based at the University of Columbia in NY. His knowledge of English and of Economics meant that he was asked to give talks to business and finance leaders and this led to the offer of a lecturing job at Columbia. Schumacher returned to Germany to find the Nazis in power. He and all in his family were strongly opposed to Hitler and Schumacher was encouraged by his father to go back to Britain or America to work. For a couple of years Schumacher worked in businesses trying to develop trade between Germany and the rest of the world, but in 1936 Schumacher got a job as a financial adviser with Unilever in Britain. By 1938 he was getting a bit bored with the work, which centred on economic analysis, and he began to work on a project to develop electric vehicles. The outbreak of war put paid to this – and Schumacher lost his job and was interned as an 'enemy alien'. Contacts with influential friends from his Oxford days meant that he was soon able to leave the camp, but not before he had been elected Camp Leader by his fellow internees! Schumacher was able to settle into work as a farm labourer, which made quite a change from the sort of things he had been doing.

War Work

However, the experience had a considerable influence on his later life and thought. Work each day as a farm labourer in the war economy brought Schumacher into a very close relation between the land, resources, work and the core activities of life. In later life Schumacher was an early advocate of organic farming and in 1970 he was President of the Soil Association – something of which he was extremely proud. Meanwhile, back on the farm each evening he continued to work on economics. The big idea he developed was for a post-war multi-national clearing system to facilitate faster and cheaper international trade. Schumacher thought that hitherto trade tended to contribute to economic and sometimes military conflict. Excess for one company (or nation) might mean indebtedness for another; the scarcity of a resource x or commodity y would lead to conflict to obtain and control it. Such was the consequence of free trade and unbridled competition. A multi-national clearing system would, Schumacher reasoned, ease matters and facilitate a fairer approach. The greatest living economist at the time was John Maynard Keynes (1883-1946) and in 1942 Schumacher managed to get time off to go and discuss his ideas with him. Keynes had had similar ideas it turned out, but he was impressed with the detail in Schumacher's proposal. This had two consequences; one was that Keynes put in a good word on Schumacher's behalf and got him a job at the Statistics Unit at Oxford. This group worked to analyse and report on the British war economy. The other was that Schumacher wrote up and published his ideas only to find that Keynes had used them already almost verbatim in a publication of his own! Schumacher continued to work at the Statistic Unit, getting to know the young Oxford economics don Harold Wilson – later the labour Prime Minister (1964-70 and 74-76), and doing some economic journalism for *The Observer* and other periodicals. In this Schumacher was highly regarded – he was good at crisp and punchy analysis – but it did not grab him as a career.

² *The Times Literary Supplement*, 6-10-95, p39

The Post-War Period

In 1945 as the war in Europe ended Schumacher was transferred to a unit that were to survey the American Bombing of Germany. In effect this meant doing a survey of the German war economy and making an assessment of the effects of bombing on it. This was a very major area of interest as it became clear quickly that the German economy had remained highly effective for almost all of the war despite the devastating damage done (and high losses sustained) by bombing.

In 1946 Schumacher gained British nationality – something he had sought for some years but the war and precluded an earlier settlement. He also moved on to be Economic Adviser to the British Control Commission in Berlin. The analysis Schumacher made of the German economy was the key to its ongoing recovery would reliable sources of energy and this meant coal, of which Germany had strong resources. Herein began Schumacher's long association with the coal industry! Schumacher produced a number of ideas at this stage which might seem to us now as very obvious – but in 1946 the ideas were extraordinary and contentious:

- i. Economies need energy.
- ii. Coal is a key energy source – for Germany and of course for Britain.
- iii. Coal is derived from mines.
- iv. Mines are difficult and dangerous places to work.
- v. Mines need very high levels of maintenance.
- vi. iv. and v. mean that miners are crucial and it is this vital that they are duly rewarded.

Schumacher also argued that it was not enough for an economy to require that the workforce was skilled – it was important to consider the development of personhood and to see the business of work as set within a wider frame of general culture and a vision of the good life. Here Schumacher was building in part on his farm work experience of how a small communal setting could be a productive and fulfilling context for good work, and on his sense of how mining was almost invariably a community orientated business.

The ideas here represent germs of those that were to flourish in the 1970s in *Small is Beautiful*, but in the short term it was economic work on coal that mattered, and in 1949 Schumacher was offered a job in Britain as Economic Adviser to the National Coal Board.

Schumacher 1950-70

1950-70 Schumacher worked as Economic Adviser to the National Coal Board from 1950 to 1970. The National Coal Board (NCB) was the agency that managed the coal industry in Britain, which had been nationalised in the Labour-led parliament of 1945-51.

Schumacher's job in one sense was to 'think': he was to explore and analyse the issues arising relating to the economy, energy policy and coal and to advice accordingly. The situation in 1950 was very straightforward in one sense: Britain needed a lot of energy and coal was the primary means of getting it. The snag was that demand exceeded supply and so the key was to achieve higher levels of extraction. Schumacher did some extremely detailed statistical analyses of the productivity of mines and found clear and persuasive evidence of what was central to a productive mine that met or exceeded its target. A great deal depended on the size of the coal face: the larger it was the more miners could relax into a smoother process of cutting and extraction. Smaller coal faces required much more fuss as the cutting gear had to be switched back and forth rather more often and this made the whole job more mundane and less fulfilling. Again, these ideas were to re-emerge in *Small is Beautiful*.

In 1953 Schumacher met and became a friend of the Buddhist scholar Edward Conze (1904-1979). This together with some work to advice the Burmese government on economic development, brought Schumacher into contact with Indian religious thought in general and Buddhism in particular.

Schumacher began to formulate some new ideas:

- i. He began to see humanity in a more holistic way. He had been a sceptic and a critic of religious thought – but he began to think that this reduced humanity to a material entity – a worker and a consumer. Instead there needed to be the spiritual dimension and then work would be re-conceived as a part of human self-development.
- ii. He began to use the term 'non-renewable' to describe fossil fuel energy sources like coal, gas and oil.

- iii. He expressed the latter point by writing that using fossil fuels that were non-renewable was like a person living on capital: sooner or later it runs out! What was needed was to live on income i.e. develop renewable energy sources and a more pluralistic use of a range of energy sources so non-renewable fuel was used more sparingly.
- iv. Finite fuel reserves were strong however, and it would be important to retain all fuel industries to build a flexible and pluralist energy industry.

By 1957 coal production in Britain exceeded demand and political pressure came to cut back production. Schumacher opposed this as he thought that the growing reliance on oil would result in a high level of dependence on another fossil fuel and one that was largely derived from oil fields in the middle east, a region Schumacher was sure would be politically unstable. He was right there! In 1959-60 and again in 1961 and 1965 Schumacher gave courses of lectures for the Workers Education Movement at Imperial College on 'Crucial Problems of Modern Living'. In these lectures and in other talks and article Schumacher's ideas were honed and developed and he gained a very clear sense that there was an audience for his ideas and that he had a talent to communicate them.

Key themes were:

- i. Finite and non-renewable energy resources like coal were limited
- ii. Exclusive reliance on any one such energy source was an error
- iii. Plural energy resources were needed to enable sustained energy sources
- iv. Coal (still Schumacher's main professional focus) was still plentiful but it was more expensive to mine; nevertheless, it was important to sustain mining via government subsidy to fit into the pluralist energy economy.

During the 1960's Schumacher was involved with projects to assist development in new economies in the so-called 'third world.' A strong theme emerged of arguing for 'intermediate technology.' Schumacher was certain that in developing economies the skill-level and infrastructure militated against the effectiveness of aid for agriculture that was based on the latest modern high technology: even if a modern tractor could be operated, it could not be maintained or repaired and would soon become derelict. We are now quite accustomed to the notion that it is helpful to raise money to send cows or goats to a village in some part of Africa or whatever; this approach, together with the use of appropriate or 'intermediate' technology owes much to Schumacher's initiatives.

Schumacher retired from his role at the NCB in 1970 – the year he also served as President of the Soil Association.

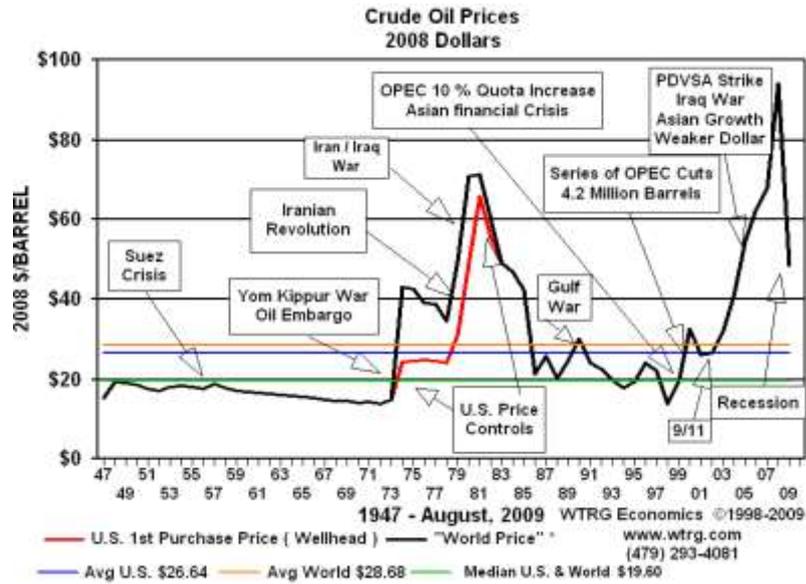
Schumacher 1970-77

At quite retirement was not on the agenda! Schumacher was keen to promote the thinking he had been developing for over twenty years and gave more lectures and talks. The idea emerged of putting some of his thoughts into a book and thus he worked to collect and revise material for what became *Small is Beautiful*.

The book was published in 1973, the year in which a massive energy crisis hit the developed world. This was a direct consequence of the Arab-Israeli 'Yom Kippur' conflict of that year, which Israel won convincingly and which the developed economies of the West (especially the USA) tended to support. The upshot was that the oil-producing Arab states responded by cutting oil production and by raising dramatically the price of crude oil.

The graph³ on the next page makes the point quite well:

³ The graph is from the *WTRG Economics* website



Notes on Oil Prices

From the 'Education' page on the Bank of England website we can proffer another pack of information on UK energy costs:

In 1955: £1's worth of	Petrol and	Electricity
1965 cost:	£1.17	£1.69
1975 cost:	£3.29	£4.23
1985 cost:	£8.98	£13.09
1995 cost:	£12.20	£19.66
2008 cost:	£24.07	£26.65

Notes on UK energy costs:

Schumacher had, of course, long predicted the dangers of an over-reliance on middle-eastern oil. The consequences in Britain of the 'oil crisis' were dramatic: inflation spiralled; the miners campaigned and then went on strike for a huge pay rise; the country had an energy crisis and was on a three-day week with lots of power cuts and in February 1974 the Conservative Government of Edward Heath was defeated in the 'Who Governs Britain' election.

It is impossible to imagine a better time for Schumacher's book to hit the bookstands. It did not so much strike a chord as demolish the orchestra! The book sold steadily at first, but like a bush fire sales grew rapidly and Schumacher's life changed dramatically.

From 1974 until his sudden death from a heart attack in 1977, Schumacher was in great demand as a speaker and lecturer. He travelled the world and was an inspirational figure for a whole generation of activists and campaigners concerned to develop positive economic and environmental policies. Another book – *A Guide for the Perplexed* – was published, giving a sustained attack on materialist values.



Extracts from *Small is Beautiful (SB)*

Study the extracts from chapters 1 – 4 of ***Small is Beautiful*** and in for each write notes on the implications for the ethics of business and economics:

On the problem of production (SB chapter 1)

One of the most fateful errors of our age is the belief that "the problem of production" has been solved. p.10

The arising of this error, so egregious and so firmly rooted, is closely connected with the philosophical, not to say religious, changes during the last three or four centuries in 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. p.10/11

The illusion of unlimited powers, nourished by astonishing scientific and technological achievements, has produced the concurrent illusion of having solved the problem of production. The latter illusion is based on the failure to distinguish between income and capital where this distinction matters most. Every economist and businessman is familiar with the distinction, and applies it conscientiously and with considerable subtlety to all economic affairs – except where it really matters: namely, the irreplaceable capital which man has not made, but simply found, and without which he can do nothing. p.11

...we are estranged from reality and inclined to treat as valueless everything that we have not made ourselves. p.11

...we have indeed labored to make some of the capital which today helps us to produce – a large fund of scientific, technological, and other knowledge; an elaborate physical infrastructure; innumerable types of sophisticated capital equipment, etc. – but all this is but a small part of the total capital we are using. Far larger is the capital provided by nature and not by man – and we do not even recognize it as such. This larger part is now being used up at an alarming rate, and that is why it is an absurd and suicidal error to believe, and act on the belief, that the problem of production has been solved. p.11

Is it not evident that our current methods of production are already eating into the very substance of industrial man? p.16

The substance of man cannot be measured by Gross National Product. p.16

Statistics never prove anything. p.16

...one of the most fateful errors of our age is the belief that the problem of production has been solved. The illusion...is mainly due to our inability to recognize that the modern industrial system, with all its intellectual sophistication, consumes the very basis on which it has been erected. To use the language of the economist, it lives on irreplaceable capital which it cheerfully treats as income. p.16

Notes

On Peace & Permanence (SB chapter 2)

It is clear that the "rich" are in the process of stripping the world of its once-for-all endowment of relatively cheap and simple fuels. It is their continuing economic growth which produces ever more exorbitant demands, with the result that the world's cheap and simple fuels could easily become dear and scare long before the poor countries had acquired the wealth, education, industrial sophistication, and power of capital accumulation needed for the application of alternative fuels on any significant scale. p.22

...that economic growth, which viewed from the point of view of economics, physics, chemistry, and technology, has no discernable limit must necessary run into decisive bottlenecks when viewed from the point of view of the environmental sciences. An attitude to life which seeks fulfilment in the single-minded pursuit of wealth – in short, materialism – does not fit into this world, because it contains within itself no limiting principle, while the environment in which it is placed is strictly limited. p.23

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. The question is whether such causes can be effective for long or whether they carry within themselves the seeds of destruction. p.24/25

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, of seeing things in their roundness and wholeness, and his very successes become failures. If whole societies become infected by these vices, they may indeed achieve astonishing things but they become increasingly incapable of solving the most elementary problems of everyday existence. p.25

...the foundations of peace cannot be laid by universal prosperity, in the modern sense, because such prosperity, if attainable at all, is attainable only by cultivating such drives of human nature as greed and envy, which destroy intelligence, happiness, serenity, and thereby the peacefulness of man. p.26

No one is really working for peace unless he is working primarily for the restoration of wisdom... From an economic point of view, the central concept of wisdom is permanence. We must study an economics of permanence... The exclusion of wisdom from economics, science and technology was something which we could perhaps get away with for a little while, as long as we were relatively unsuccessful; but now that we have become very successful, the problem of spiritual and moral truth moves into the central position. p.26

The cultivation and expansion of needs is the antithesis of wisdom. It is also the antithesis of freedom and peace. Every increase in needs tends to increase one's dependence on outside forces over which one cannot have control, and therefore increases existential fear. Only by a reduction of needs can one promote a genuine reduction in those tensions which are the ultimate causes of strife and war. p.26/27

That soul-destroying, meaningless, mechanical, monotonous, moronic work is an insult to human nature which must necessarily and inevitably produce either escapism or aggression, and that no amount of "bread and circuses" can compensate for the damage done – these are facts which are neither denied nor acknowledged but are met with an unbreakable conspiracy of silence – because to deny them would be too obviously absurd and to acknowledge them would condemn the central preoccupation of modern society as a crime against humanity. p.30

The neglect, indeed the rejection, of wisdom has gone so far that most of our intellectuals have not even the faintest idea what the term could mean. As a result, they always tend to try and cure a disease by intensifying its causes. The disease having been caused by allowing cleverness to displace wisdom, no amount of clever research is likely to produce a cure. But what is wisdom? Where can it be found? Here we come to the crux of the matter: it can be read about in numerous publications but it can be *found* only inside oneself. p.30/31

[The insights of wisdom]...enable us to see the hollowness and fundamental unsatisfactoriness of a life devoted primarily to the pursuit of material ends, to the neglect of the spiritual. Such a life necessarily sets man against man and national against nation, because man's needs are infinite and infinitude can be achieved only in the spiritual realm, never in the material. p.31

How can we disarm greed and envy? Perhaps by being much less greedy and envious ourselves; perhaps by resisting the temptation of letting our luxuries become needs; and perhaps by even scrutinizing our needs to see if they cannot be simplified and reduced. p.31

Notes

On Economics (SB Chapter 3)

Economics...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...* The market...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 institutionalization of individualism and non-responsibility. Neither buyer nor seller is responsible for anything but himself. p.36

...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. p.37

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; 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: with is worse, and destructive of civilization, is the pretence that everything has a price or, in other words, that money is the highest of all values. p.37-38

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. p.41

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. p.42

Notes

On Buddhist Economics (SB chapter 4)

There is universal agreement that a fundamental source of wealth is human labour. Now, the modern economist has been brought up to consider "labour" or work as little more than a necessary evil. From the point of view of the employer, it is in any case simply an item of cost, to be reduced to a minimum if it can not be eliminated altogether, say, by automation. From the point of view of the workman, it is a "disutility"; to work is to make a sacrifice of one's leisure and comfort, and wages are a kind of compensation for the sacrifice. Hence the ideal from the point of view of the employer is to have output without employees, and the ideal from the point of view of the employee is to have income without employment.

The consequences of these attitudes both in theory and in practice are, of course, extremely far-reaching. If the ideal with regard to work is to get rid of it, every method that "reduces the work load" is a good thing. The most potent method, short of automation, is the so-called "division of labour" and the classical example is the pin factory eulogised in Adam Smith's *Wealth of Nations*.⁴ Here it is not a matter of ordinary specialisation, which mankind has practiced from time immemorial, but of dividing up every complete process of production into minute parts, so that the final product can be produced at great speed without anyone having had to contribute more than a totally insignificant and, in most cases, unskilled movement of his limbs.

The Buddhist point of view takes the function of work to be at least threefold: to give man a chance to utilise and develop his faculties; to enable him to overcome his ego-centeredness 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. p.44/45

From the Buddhist point of view, there are therefore two types of mechanisation which must be clearly distinguished: one that enhances a man's skill and power and one that turns the work of man over to a mechanical slave, leaving man in a position of having to serve the slave. How to tell the one from the other? "The craftsman himself," says Ananda Coomaraswamy, a man equally competent to talk about the modern West as the ancient East, "can always, if allowed to, draw the delicate distinction between the machine and the tool. The carpet loom is a tool, a contrivance for holding warp threads at a stretch for the pile to be woven round them by the craftsmen's fingers; but the power loom is a machine, and its significance as a destroyer of culture lies in the fact that it does the essentially human part of the work."⁵ It is clear, therefore, that Buddhist economics must be very different from the economics of modern materialism, since the Buddhist sees the essence of civilisation not in a multiplication of wants but in the purification of human character. Character, at the same time, is formed primarily by a man's work. And work, properly conducted in conditions of human dignity and freedom, blesses those who do it and equally their products. The Indian philosopher and economist J. C. Kumarappa sums the matter up as follows:

'If the nature of the work is properly appreciated and applied, it will stand in the same relation to the higher faculties as food is to the physical body. It nourishes and enlivens the higher man and urges him to produce the best he is capable of. It directs his free will along the proper course and disciplines the animal in him into progressive channels. It furnishes an excellent background for man to display his scale of values and develop his personality.'⁶ p.46

Modern economics does not distinguish between renewable and non-renewable materials, as its very method is to equalise and quantify everything by means of a money price. Thus, taking various alternative fuels, like coal, oil, wood, or water-power: the only difference between them recognised by modern economics is relative cost per equivalent unit. The cheapest is automatically the one to be preferred, as to do otherwise would be irrational and "uneconomic." From a Buddhist point of view, of course, this will not do; the essential difference between non-renewable fuels like coal and oil on the one hand and renewable fuels like wood and water-power on the other cannot be simply overlooked. Non-renewable goods must be used only if they are indispensable, and then only with the greatest care and the most meticulous concern for conservation. To use them heedlessly or extravagantly is an act of violence, and while complete non-violence may not be attainable on this earth, there is nonetheless an ineluctable duty on man to aim at the ideal of non-violence in all he does. p.50

Just as a modern European economist would not consider it a great achievement if all European art treasures were sold to America at attractive prices, so the Buddhist economist would insist that a population basing its economic life on non-renewable fuels is living parasitically, on capital instead of income. Such a way of life could have no permanence and could therefore be justified only as a purely temporary expedient. As the world's resources of non-renewable fuels—coal, oil, and natural gas—are exceedingly unevenly distributed over the globe and undoubtedly limited in quantity, it is clear that their exploitation at an ever-increasing rate is an act of violence against nature which must almost inevitably lead to violence between men. p.50

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