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As if Local Community Mattered

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Slogans such as “think globally, act locally” and “small is beautiful” were popular in the 1970s. Since the 1990s it has become fashionable to talk about subsidiarity, democracy, civil society, and sustainable development. However, the question that does not seem to have a satisfactory answer is “What would economics be like if local community really mattered?” My short answer is that economics should be *locally-oriented, empirically-rich, normatively-focused*.¹ In this article I want to explore what this would mean.

If local community mattered economics would be locally-oriented

National versus local economies

Today economists are oriented to national economies. American economists are concerned with the American economy. British economists are concerned with the British economy. Assessments of economic activity revolve around calculating the gross domestic product (GDP) of a particular country. For instance, economists add up the spending of all households in the USA, all the money spent on capital equipment, inventories, and new houses in the USA, all the money spent by the various governments in the USA, plus all the money foreigners spend on American goods minus the total amount of money Americans spend on foreign goods. ($GDP = C + I + G + NX$.) Economists presume that if the GDP of the USA is growing the standard of living is improving. And if the GDP is shrinking economists sound alarm bells.

Notice that local communities do not matter. Local communities may be going down the drain but as long as the GDP of the nation is growing the economy is in good shape. Perhaps there should be more to this story. Why doesn't the fate of local communities matter? What if local economies *did* matter?

If the local community mattered wouldn't it make sense for economists to focus on the economic activities of ordinary business? If the local community is rural, economists would notice immediately what every farmer knows, namely that he has to set aside money to replace machinery or the barn roof which will wear out someday. Every farmer also knows he has to have a certain amount of circulating capital to cover the cost of

buying seed, planting it, tending it, harvesting it, and selling it. In fact, every ordinary business person knows these things.

It would soon become obvious to economists that every business person in the local community spontaneously distinguishes between consumer goods and capital goods. Consumer goods are goods that are used in their homes and capital goods are goods that are used over and over again in a business in order to produce goods which they sell.

Further study of business activities would reveal the fact that a distinct flow of money corresponds to the production and sale of consumer goods and that a different flow of money corresponds to the production and sale of capital goods. Although current tax policies and debates completely neglect such flows, every business person distinguishes between their personal income tax and the taxes they have to pay on the amount of goods and services their business sells. With further investigations and luck economists might discover that these two flows of money are the key variables in the local economy.

From here it doesn't seem too big a leap to grasp that if there is one local economy then there are other local economies, and that these economies might be linked in some way. Economists might think of village, town, county, city, state, regional, national, continental, international, and global economies. Presumably they might think it worthwhile to investigate the relationships between these different economies.

Gambling versus Production

Today the media are obsessed with the fortunes of large public corporations: the ups and downs of stock exchanges and the ups and downs of share prices. You would be forgiven for thinking that the stock markets are the engine of an economy. After local economists discovered that the production and sale of goods and services corresponds to particular circulations of money it probably wouldn't take them long to grasp the relative insignificance of buying and selling shares.

General textbooks versus Local textbooks

Today it is taken for granted that an economist trained at an American university is capable of fixing the economies of nations in sub-Saharan Africa or South America. The same introductory economics textbooks can be found in university bookstores in the United States, Canada, and the United Kingdom. "One size fits all." Have you ever wondered why there is no economic textbook about the economy of Iowa or California? How could the same textbook adequately cover the economies of Des Moines and Los Angeles? Would you ever dream that these economies are similar? Wouldn't it make more sense if introductory economic textbooks were re-oriented from generalities to local economies?

Fat-cats versus Local Bankers

Today we see our bankers either as affluent, remote, aggressive people who are part of just another type of cutthroat business angling for as large a commission as possible, or as stingy rule-obsessed bureaucrats. Is it possible that someday we might consider bankers important and respected figures in our communities? Can you envisage bankers who have the care of their community in their hands? Can you imagine having a banker who would want to know, and who would be able to judge what a person's credit is used for?² Wouldn't it be essential to have a banker in the local community who was able to judge "the chances of

success of each purpose and, as a means to this end, the kind of man the borrower is, watching him as he proceeds"?³

Central Controls versus Micro- and Meso- Autonomy

Economists today see economic activity in terms of central controls. For instance, Gregory Mankiw, President George W. Bush's Chief Economic Advisor, identifies five major issues in macroeconomic policy in this way: "Monetary and fiscal policy makers should try to stabilize the economy. Monetary policy should be made by rule rather than by discretion. The central bank should aim at zero inflation. The government should balance the budget. The tax laws should be reformed to encourage savings."⁴ By framing the issues in this way Mankiw takes it for granted that some central authority, policy makers, central bank, government, lawmakers, should be running the economy. The problem, of course, is that this diagnosis fails to capture what is actually going-on and these institutions are unable to respond intelligently and quickly to novel situations.

Surely, there is a better option. What if economics is not about central control, but about micro- and meso-autonomy? Imagine an economist in every village and people cooperating in the proper administration of economies. Such economists would spell out and assess current situations, reporting to members of the community and suggesting appropriate measures. Like a good coach in sports, each economist would be concerned with what, in fact, is the present situation in order to recommend suitable measures to keep local production and the local monetary circuits in step. Like successful coaches who discover new ways to advance particular sports, the most successful economists would not be the ones who receive the highest pay or Nobel prizes, but the ones who help improve the standard of living of all people.

If local community mattered economics would be empirically-rich

Today's economists believe that economic activity is so complicated that the only way they can handle it is to construct models that are simplified versions of what actually happens. Does this seem weird to you? Why wouldn't economists want to try to understand what is *actually* going on in this or that economy? Why would economists settle for simplified versions of reality? What if their models are flawed?

Perhaps local economists would *not* think that it is bizarre to measure the actual local flows of production, the actual local flows of money in the consumer and capital circuits, how much money the government adds in subsidies to the local monetary circuits, how much the government extracts in taxes from the local circuits, and how much money enters and leaves the circuits via bank loans, trade, and so on. Is there any reason why we wouldn't want our understanding of economics based on what *actually* is the case, in business and trading, in investment and war, in disasters and times of abundance?

In light of the discovery of two distinct circuits – a consumer circuit of production and money, and a capital circuit of production and money – it would likely become apparent that new types of measures and accounting practices would be needed. However, these measures could be built on what we currently use. For instance, the different charges levied by telephone and power companies and banks on ordinary consumers and corporate clients would need to be extended throughout the economy.

If local community mattered economics would be normatively-focused.

Today, a country's economy is judged a success if it exports more goods and services than it imports even if its exports destroy local markets in foreign countries. A business is a success if it gets bigger and bigger even if it puts local businesses into bankruptcy. And executives receive bonuses if the share prices of their companies rise even if revenues fall. Does any of this seem crazy to you?

Perhaps it is time to re-focus notions of success. Shouldn't we be thinking about the success of local economies, not just national economies? Wouldn't it make sense to consider a business as a success if it provided things that people need and, in the process, it didn't mess up the monetary circuits of the local economy or other economies. Perhaps our future success stories will focus on the people who understand how economies work and who have done the right things at the right time to keep them working for everyone. Success would then be considered more than becoming one of the 100 richest people in the world or a Fortune 500 company.

We might even get to the point where we condemn innovation simply for the sake of innovation and become content with a going-concern and a standard of living. Leisure rather than work might become our *raison d'être*. Our heroes of business might be the people who, through good ideas and invention, actually liberated people from work without lowering their standard of living. Imagine if technology actually freed us from work rather than simply enabling us to do more things at the same time.

In the light of the many business people facing criminal charges and in jail perhaps it is time to condemn the self-interested win-at-all-costs type of competition that many business people promote. Wouldn't it make sense to re-focus the competitive spirit toward something along lines which foster excellence by calling out the best in each other?

The day may even come when politicians admit that they have no idea how an economy works, and is working. And someday, no political party, surely, will wish to take a stand on stupid interference with the dynamics of the economy. In fact, without a clear view on how an economy works, political maneuverings about tax, trade, equality, progress, culture, and values take place in the economic dark. However, that new day depends on understanding how any economic unit works, and is working. A crucial part of that clear view is that there are two main sets or flows of payments in an economy – consumer and capital – and without making that distinction you are in the field of guess-work and myth.

Conclusion

I have focused on the idea that economics should be *locally-oriented, empirically-rich, and normatively-focused*. But the problems we face are broad and deep. There is a desperate need for a New Order,⁵ a New Order that “will attack at once both the neglect of economic education and the blare of advertisements leading the economically uneducated by the nose; it will give new hope and vigor to local life, and it will undermine the opportunity for speculation corrupting central governments and party politics; it will retire the brain trust but it will make the practical economist as familiar a professional figure as the doctor, the lawyer, or the engineer; it will find a new basis both for finance and for foreign trade. The task will be vast, so vast that only the creative imagination of all individuals in all democracies will be able to construct at once the full

conception and the full realization of the new order.”⁶ Isn't it about time for us to begin? And why not start with your local community?

EndNotes

- 1) In Pastkeynes *Pastmodern Economics: A Fresh Pragmatism*, Axial Press, Halifax, 2003 Philip McShane uses these terms to characterize the new type of economics textbooks that are desperately needed.
- 2) J. Schumpeter, *Business Cycles*, Volume 1, 116.
- 3) J. Schumpeter, *Business Cycles*, Volume 2, 640.
- 4) G. Mankiw, *Principles of Macroeconomics*, The Dryden Press, Montreal, 1997, 204.
- 5) See B. Anderson and P. McShane, *Beyond Establishment Economics*, Axial Press, Halifax, 2002, chapter 10 and also Pastkeynes *Pastmodern Economics*.
- 6) B. Lonergan, *For A New Political Economy, Collected Works of Lonergan*, University of Toronto Press, Toronto, 1998, Volume 21, 36-37.

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