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## **The Importance of Meta-economics**

E.F. Schumacher was one of the first scholars who recognized the crucial role of meta-economics. In his "Small is beautiful" he writes: "The science of economics is 'so prone to usurp the rest' ... 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." (Schumacher, E. F. 1973: p. 38)

Meta-economics is the basic assumptions about the subject-matter, value-orientation and methodology of economics. (Zsolnai, L. 1991) The paper attempts to reconstruct the meta-economic foundation of mainstream economics and that of alternative economics initiated by Schumacher. It shows how the emerging alternative economics transcends the erroneous meta-economic assumptions of mainstream economics by considering the total economic process, choosing sustainable livelihood as basic value-orientation, and employing a constructive methodology.

### 1 The Metasystems Approach

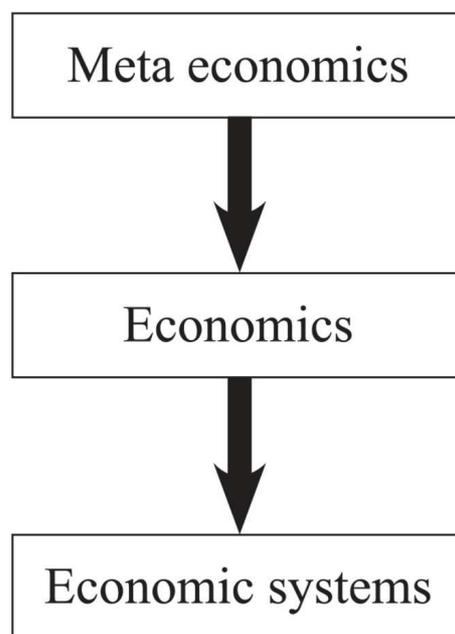
The term "*meta*" stems from Greek where its original meaning is "after". Metaphysics starts where physics ends, that is, come after metaphysics. Nowadays, however, "meta" is mostly used in the meaning of "*above*". "A system is defined as a set of elements and relationship between the elements. As long as one deals with these elements and relationships – the objects of the system – the considerations on the system are at object level. When this level is exceeded, the considerations are at metasystemic level." (Kickert, W.J.M. and VanGigch, J.P. 1979: p.1218.)

Ian Mitroff summarizes the function of a meta-theory as follows: "the goals of a meta-theory are to advise us (1) at the global level, on how to choose that problem we ought to be solving, (2) at the detailed level, on how to specify the detailed structure of the problem we have chosen to solve, and (3) on which criteria to accept or reject a proposed solution." (Mitroff, I.I. and Betz, F. 1972: pp. 11-12.)

The metasystem approach can be used in illuminating the current "mess" produced by economics. *Schumacher* observes: "economics is a 'derived' science which accept instructions from ... meta-economics. As the instructions are changed, so changes the content of economics." (Schumacher, E.F. 1973)

*Figure 1* shows a hierarchy where economic systems are at the bottom. Economics is in the middle. Finally, meta-economics is at the top. Economics provides direction for economic systems and rates its solutions. Metaeconomics directs and judges economics itself. The truth of economics is guaranteed by the adequacy of meta-economics. If meta-economics is wrong then economics becomes misguided and dysfunctional.

Figure 1 *Meta-economics, Economics, and Economic Systems*



Meta-economic choices concern three basic questions:

What is the *subject matter* of economics?

Which *value-commitment* is right for economics?

What is the appropriate *methodology* of economics?

## 2 Erroneous Assumptions of Mainstream Economics

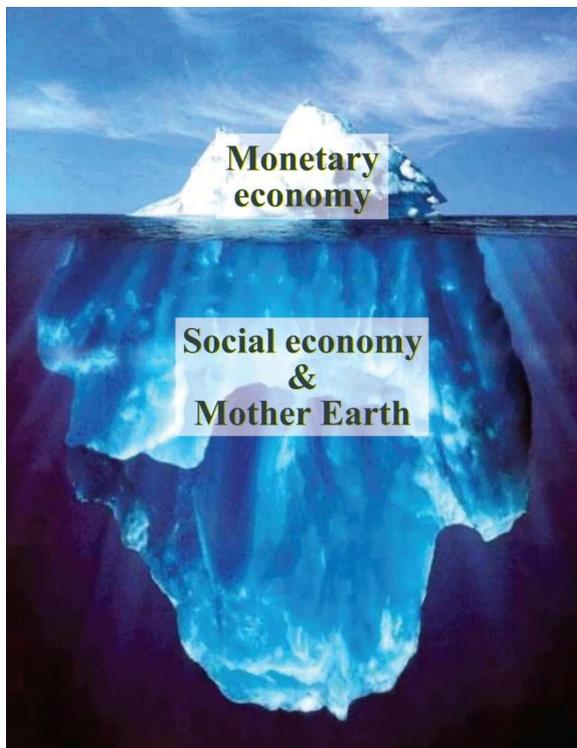
Mainstream economics continuously produces environmental and social failures. Its instruments are blunted. Its directions are confused. The broad economic consensus has evaporated. The experts are in doubt and the public opinion is skeptical and bewildered.

The failures of mainstream economics come from its inadequate meta-economic choices.

Mainstream economics defines its subject matter is the *monetary economy*, that is, the monetary sphere of the society. Only those processes and assets are relevant for mainstream economics which are measured and traded on the market. The remaining part, because it does not create marketable values, is qualified as economically 'non-productive' and consequently negligible and worthless.

However, the monetary economy is only a minor part, a small fraction of the of the whole "economic iceberg" which is the total interaction between society and nature. There are other layers below the monetary sphere, namely the social economy (including household works and community activities) and Mother Earth which provides natural resources and services and absorbs (or does not absorb) the externalities produced by the functioning of humans and their organizations. (*Figure 2*)

Figure 2 *The Whole Economic Iceberg*



*Andrew Brody* notes that “about 50 percent of the population of the more advanced countries is gainfully employed – and only their work is covered in the usual accounts of the national income. In less developed countries this share is still less”. Considering leisure and other non-working activities “in advanced countries not more than 14 percent of the total disposable time is reckoned, and when total and partial unemployment is also considered then it will be less than 10 percent.” Brody, A. 1985: pp. 57-58.)

Most of the value-creation of nature is disregarded in mainstream economics. According to the calculation by *Robert Constanza* and his colleagues the *ecosystem services* and *natural capital stocks* of the Earth exceeds about two times the GNP of the global economy. They have estimated the economic value of 17 ecosystem services for 16 biomes, based on published studies and a few original calculations. For the entire biosphere, the value (most of which is outside the market) is estimated to be in the range of US\$16-54 trillion per year, with an average of US\$33 trillion per year. Because of the nature of the uncertainties, this must be considered a minimum estimate. Global gross national product total is around US\$18 trillion per year. (Constanza, R. et al 1997)

The monetized sphere of society represents not more than a tinny fraction of the total economic process. By focusing on the monetized activities mainstream economics commits the error of the '*pars pro toto*' because it neglects the non-monetized social economy and the life-supporting functioning of nature. It is known from systems theory that if only a part of a greater system is considered and optimized then the whole system will be misunderstood and destructed.

The basic value commitment of mainstream economics can be labeled as *materialistic hedonism*. According to mainstream economics the principal task of the economy is to attain the maximum fulfillment of the unlimited wants of people.

Psychological research shows that materialistic hedonism cannot lead to human well-being and happiness but actually destroys them. Psychologist *Tim Kasser* writes that “materialistic values reflect the priority that individuals give to goals such as money, possessions, image, and status. Empirical research shows that the more that people focus on materialistic goals, the less they tend to care about spiritual goals. Further, (...) numerous studies document that the more people prioritize materialistic goals, the lower their personal well-being and the more likely they are to engage in manipulative, competitive, and ecologically degrading behaviors.” (Kasser, T. 2011)

Schumacher argues that hedonism is in conflict with the permanence of nature. “An attitude to life which seeks fulfillment in the single-minded pursuit of wealth ... does not fit into this world, because it contains within itself no limiting principle while the environment in which it is place is strictly limited. .. We find the unlimited economic growth, more and more until everybody is saturated with wealth, needs to be seriously questioned on at least two counts: the availability of basic resources, and ... the capacity of the environment to cope with the degree of interference implied.” (Schumacher, E.F. 1973)

In the contemporary '*full world economy*' (Daly, H. 1996) materialistic hedonism as a value orientation is dangerous. It necessarily leads to the destruction of natural ecosystems, biodiversity losses and climate change while producing "welfare malaise" and increasing social inequality.

The epistemology of mainstream economics is *positivism*. A popular economics textbook writes: “In studying any problem or segment of the economy, the economists must first gather the relevant facts. These facts must then be systematically arranged, interpreted and generalized upon. These generalizations are useful not only in explaining economic behavior, but also predicting and therefore controlling future events.” (McConnell, C.B. 1984: p. 3.)

By drawing a strict demarcation line between facts and values mainstream economics tries to discover economic laws similar to the laws of natural sciences. It is an impossible mission because economic regularities are always conditional, that is, influenced by the environmental, social and cultural context within which economic actors are functioning.

Positivism as a methodology is not fruitful for economics because economic agents are not physical object but conscious beings and their behavior cannot be adequately treated by the methods of natural sciences.

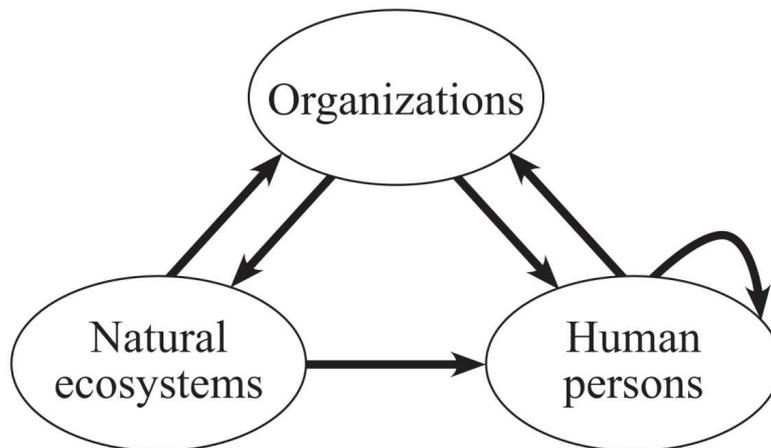
As a summary we can say that monetary economy as subject matter, material hedonism as basic value-commitment and positivism as methodology are *erroneous meta-economic choices* for economics. Deeply concerned about the failures of mainstream economics Andrew Brody resignedly writes the following: “We are not entitled to claim to have discharged the function assigned to us by our fellow men in our capacity as economists, and it is also very doubtful whether we set ourselves at the task in the right way.” (Brody, A. 1985: p. 9.)

### 3 The Promise of Alternative Economics

*Alternative economics* is a response to the ecological and human crisis of our age. Its aim is to re-orienting and reforming economic activities in order to transform modern economies in less counter-ecological and more human forms. Alternative economics employs other meta-economics assumptions than mainstream economics does.

The subject-matter of alternative economics can be defined as the *total economic process* which consists of the multiple interactions among natural ecosystems, economic organizations and human persons. (*Figure 3*) Natural ecosystems provide humans with life-supporting ecological services and produce natural resources for economic organizations. Economic organizations (firms, households and community institutions) produce goods and services for humans and influence the functioning of the ecosystems. Finally, humans take part in the activities of economic organizations and contribute to their own livelihoods.

Figure 3 The Total Economic Process



The basic value-commitment of alternative economics is *sustainable livelihood*. It implies an engagement in ecological sustainability, respect for future generations, and human development. Sustainable livelihood requires that

- ( $\alpha$ ) Economic activities may not harm nature or allow others to come to harm.
- ( $\beta$ ) Economic activities must respect the freedom of future generations
- ( $\gamma$ ) Economic activities must serve the well-being of people.

Economic organizations and humans should use natural ecosystems in a way that the structural and functional properties of the ecosystems remain invariant. Economic organizations should serve the whole person, that is, the material, psychological and spiritual needs of people. Humans should develop ways of life which are consistent with the permanence of nature and the well-being of other people including the prospect of future generations. Ecological sustainability and human development are complementary tasks. If natural ecosystems damaged and destroyed then the lives of people cannot be healthy. Inversely, deprived people are not able to regenerate destroyed ecosystems.

Alternative economics uses *constructive methodology*. Constructive research is based on the hope that we can transform the actual world in a possible world which is better. Constructive methodology means that we search for new ways things could be and make practical efforts to realize these possibilities.

Action research and evaluation research are instructive for alternative economics.

*Action research* represents a circular process. The departure point is an action-oriented theory. In the light of such a theory researchers produce a diagnosis of the problematic situation. The next step is to develop a plan of intervention, that is, a series of actions for the betterment of the situation. Then the implementation of the plan comes. In the final step researchers evaluate the intervention and feed back the lessons learnt to the action-oriented theory and the plan of action. The circular process ends when the results are satisfactory both for the researchers and the stakeholders. Action research is a participatory process: stakeholders are actively involved in all steps of the inquire. The dialogue between the researchers and the stakeholders is vital in creating usable knowledge and practical solutions.

*Evaluation research* breaks with the value-neutral ideal of social sciences. Value neutrality is impossible in economics because all concepts and methods used in economic research are unavoidable values infected. (Zsolnai, L. 1992)

Evaluation research explicitly valuate processes and states of affairs. Its basic rules includes (i) all the relevant value dimensions should be considered, (ii) both positive and negative values should be taken into account, (iii) present, past and future values should be carefully examined, and (iv) intrinsic values, use values, and contributory values should be distinguished.

#### 4 The Future of Economics

*Table 1* show the meta-economic assumptions of mainstream and alternative economics. (Zsolnai, L. 1991)

Table 1 *Mainstream Economics versus Alternative Economics*

	Mainstream Economics	Alternative Economics
subject matter	monetized processes	the total economic process
value-orientation	materialistic hedonism	sustainable livelihood
methodology	positivist	constructive

Centuries ago Galileo rejected Aristotelian physics because of its inadequacy. In that time he did not have yet any complete construction of a new physics. The incompleteness of alternative economics is not an argument for keeping erroneous mainstream economics in life. If economics will not become a reliable and useful tool for the ecological and human reconstruction it risks loosing its position in the academic world as well as in the policy arena.

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