LONERGAN’S NEW POLITICAL ECONOMY

Vicente Marasigan, S.J.

Six decades ago, Bernard Lonergan, then a professor of theology at Montreal, began studying economics. People were seeking his moral advice on money matters and he felt it his duty as theologian to respond with moral precepts that arise out of the economic process itself.¹

Having taught calculus and analysis in his younger days, he must have thought of applying mathematical analogies to various attempts at economic analysis. Among his fellow Jesuits, he distributed notes, some short and some long, of which one set was 133 pages long, believed to have been written in 1942, containing handwritten annotations, modifications and erasures. He entitled this set of notes “For a New Political Economy.” He continued developing these ideas and his descriptive style became more and more analytic. He revised his paper and entitled it “An Essay on Circulation Analysis” to emphasize its analytic approach, probably in sympathy with Schumpeter’s observation about the lack of analysis at a certain stage of business-cycle theory.² By 1983, this revision had grown into an antepenultimate edition-in-progress destined for volume 15 of the Collected Works of Bernard Lonergan to be published in 1997 for the Lonergan Research Institute by the University of Toronto Press.

The phrase “New Political Economy” in the old title has been

replaced to emphasize the analytic treatment. This does not mean that the innovative and political viewpoints that guided the mathematical analysis are being abandoned. I find it convenient to use the phrase for dividing the main body of this article into three parts: (1) economy; (2) political economy; and (3) new political economy; and then appending (4) a recommendation for educational institutions.

ECONOMY

Lonergan chooses to see the productive process in economics as a transformation of the potentialities of nature into a standard of living.\(^3\) Is this the way economics is seen by Keynes? Leontieff? Marshall? Marx? Quesney? Ricardo? Schumpeter? Smith? Walras? Does it coincide with any of the popular definitions listed in textbooks?\(^4\) Hard to say. But Lonergan’s working is more general and embraces all the particular aspects emphasized in other definitions or descriptions.

There is ample evidence in Lonergan’s notes that he understood the positions of the nine men named above, not only as these positions were mathematically formulated but especially insofar as their methodology was influenced by presuppositions latent in their philosophical background.

Their philosophies were seen by Lonergan as implying a theory of cognitional process in the empirical sciences. Economics is claimed to be an empirical science and must therefore limit itself, like physics or biology, to empirical data; there can be no such thing as Buddhist economics or Christian economics, just as there can be no Christian physics or Buddhist biology. Economics is positive, not normative.\(^5\)

In practice, economists are not unanimously against normativity especially as regards macroeconomics. Macroeconomic norms are determined by officials with the power that they wield either

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5. Ibid. 4-5.
by election (as in democracies) or by usurpation (as in oligarchies). These officials now have the technical tools for politically controlling economic processes for better or for worse, better for some vested interests and worse for others. This is what people generally mean by a political economy.

POLITICAL ECONOMY

Is this what Lonergan meant by political economy in his original title? Not exactly. As with the word "economy," so with the word "political," Lonergan prefers the more general perspective, the higher viewpoint. "Politics" is not limited to partisan politics where different vested interests compete in the political arena in sectors that are formally "partisan." But "politics" can have the meaning that Lonergan sees in the concept of "cosmopolis." 6

There are big differences between the cosmopolite and the partisan politician. The former transcends partisan competitions and will even promote perfect competition, while the latter maximizes them even to the extent of destroying all competition with monopolistic ruthlessness and thus destabilizing the pricing mechanism. In turn, such instability in the pricing mechanism leads to the perpetuation of the business cycle with its recurrent booms and slumps; one slump in today's macroeconomy can be genocidal for marginal communities in the Third World. In contrast to such a political economy, cosmopolitical economy will aim at transforming the business cycle into a "pure cycle." Lonergan's concept of a pure cycle assumes that recessions can be avoided. There have been chronic recessions in the 1870s, 1890s and 1930s, and if the present banking system fails, there will be a major collapse.

To avoid collapse, the United States, Britain and their major allies gathered at Bretton Woods in 1944 to discuss the matter under the intellectual leadership of J. M. Keynes. Why was Keynes chosen? Was it because of his economic philosophy? He was reported to have pointed out in 1930 that:

For at least another hundred years we must pretend to ourselves and to everyone 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 longer still. For only they can lead us out of the tunnel of economic necessity into daylight.  

This conference gave birth to institutions like the World Bank and the International Monetary Fund. By 1970, the conference was widely declared as a failure, and investigations were made into the causes of its "demise."  

The World Council of Churches has recently published a book by two eminent Dutch economists who have studied the Human Development Report 1992 of the United Nations Development Program and see the International Monetary Fund and the World Bank as "engaged in substantial negative transfers of money . . . These reverse transfers led the report to conclude that the 'Bretton Woods Institutions . . . failed many developing countries at their time of greatest need'."

Together with this U.N. report of 1992, other sources of reliable information concluded that the World Bank had ceased to be a bank, and this can also be said of banks all over the world whose survival depends on their cooperation with the World Bank.  

This gave top priority to financing pork-barrel projects disguised thinly, if at all, as processes of transforming the potentialities of nature into the world's standard of living. Only the oligarchic minority's standard of living benefitted. The world's standard of living did not; the "trickle-down" expectation was not fulfilled. Thus, it is possible to distinguish between two kinds of political economy: a pork-barrel or partisan economy and a non-partisan or cosmopolitical economy. To clarify the latter, it may be

convenient for *Landas* readers to recall here what Lonergan says about cosmopolis:

Perhaps enough has been said on the properties and aspects of our X, named cosmopolis, for a synthetic view to be attempted. It is not a group denouncing other groups; it is not a superstate ruling states; it is not an organization that enrols members, nor an academy that endorses opinions, nor a court that administers a legal code. It is a withdrawal from practicality to save practicality. It is a dimension of consciousness, a heightened grasp of historical origins, a discovery of historical responsibilities. It is not something altogether new . . . It comes to minds prepared for it by earlier views, for they have taught man to think historically. It comes at a time when the totalitarian fact and threat have refuted the liberals and discredited the Marxists. It stands on basic analysis of the compound-in-tension that is man; it confronts problems of which men are aware; it invites the vast potentialities and pent-up energies of our time to contribute to their solutions . . .

Finally, it would be unfair not to stress the chief characteristic of cosmopolis. It is not easy.¹¹

The "compound-in-tension that is man" is seen here by Lonergan as a problem of human adaptation to the technical constraints of the macroeconomy. An educated solution to such a problem requires that technical facts (such as the cycles of booms and slumps, of inflation, deflation and stagflation, of employment and unemployment, etc.) be analytically understood and analytically formulated if one function of education is to impart skills in analyzing reality and in discerning what is fair and what is foul; only thus can the human community optimize its adaptations to the technical constraints. Such adaptations will have to be radical and innovative if the mistakes of 1870, 1890 and 1930 are not to be repeated.

¹¹ Lonergan, *Insight*, 266. This and other writings of Lonergan provoked eighteen scholars gathered at Santa Clara University to hold a 3-day symposium in March 1994 entitled "Lonergan and Cosmopolis." Contributions fill 126 single-spaced typewritten pages.
NEW POLITICAL ECONOMY

It is clear from the two preceding sections that Lonergan’s moral concept of a new political economy in cosmopolis is concerned with raising the world’s standard of living by transforming the old business cycle into a pure cycle. This is much easier said than done:

It will require many human decisions about quantifying the ever fluctuating proportion between consumption, investment and savings of every decision-maker at every moment of time. It will require that perfect competition prevail among the decision-makers such that no individual, no sector, no vested interest can monopolize the pricing mechanism. It will require that alternating crossovers between surplus and basic incomes follow a time schedule such that the sequence of crossovers balance. It will require that market forces of demand and supply are free of artificial manipulation and depend only on the potentialities of nature. It will require that human nature understand and respect the potentialities of planetary ecology. These are some of the requirements discussed by Lonergan as matters of human adaptation to the technical constraint of an economy.

Can these requirements be met? In theory, yes. But in practice, Lonergan distinguishes between short-term practicality and long-term practicality. The requirements cannot be met in the short-term practicality of the “foul is useful” and pork-barrel financing in partisan politics. But if the world’s standard of living is the ultimate aim of the macroeconomy, it follows that long-term practicality is possible, and the fulfillment of the requirements is also possible.

But is it probable? Emergent probability has been proposed by Lonergan as a conceptual tool for understanding world process.12 This tool can lead to the construction of a calculus of probabilities from which it can be analogically shown that the probability of transforming the business cycle into a pure cycle will increase or decrease in proportion to the fulfillment or non-fulfillment of two conditions: (1) the number of independent

decision-makers is maximized; and (2) perfect macroeconomic competition is ensured. These two conditions are themselves conditioned by the level of educational enlightenment about macroeconomic process. Thus the educational structure can raise or lower the probability of the pure cycle.

This functional linkage in a chain of conditional sequences is Lonergan’s way of expressing something that many people have long known. For example:

We often hear it said that we are entering the era of ‘the Learning Society’. Let us hope this is true. We still have to learn how to live peacefully, not only with our fellow men but also with nature and, above all, with those Higher Powers which have made nature and have made us . . .13

This era of the learning society can only be introduced by people educated in the complexities of modern macroeconomics and determined to respond to them intelligently.

Response has been intelligent enough but only up to a point. A first step is undertaken and the surplus activity expands. But when the scheduled deceleration of surplus profits starts signalling the schedule of the basic expansion to begin raising the standard of living of the whole society, the meaning of this deceleration is generally misunderstood, and investors (including the banking fraternity) become frantic. As Lonergan says:

The difficulty emerges in the second step, the basic expansion. In equity it should be directed to raising the standard of living of the whole society. It does not. And the reason why it does not is not the reason on which simple-minded moralists insist. They blame greed. But the prime cause is ignorance. The dynamics of surplus and basic production, surplus and basic expansions, surplus and basic incomes are not understood, not formulated, not taught. When people do not understand what is happening and why, they cannot be expected to act intelligently. When intelligence is a blank, the first law of nature takes over: self-preservation. It is not primarily greed but frantic efforts at self-preservation that turn the recession into a

depression, and the depression into a crash.$^{14}$

Investor's who do not become frantic find it easy to rationalize their decisions with Keynes' economic philosophy that "foul is useful and fair is not." What can be more economically useful than self-preservation? Self-preservation can lead to wars and terrorism, yes, but is there a rational alternative? Lonergan's proposal of the pure cycle as a rational alternative has not yet been discovered by educators.

In a very real sense, this pure cycle is the wave of the future. Because its schedule includes fluctuations between fast booms and slow booms, it is a wave. But wave of the future? Is a future without slumps humanly possible? With Lonergan, I believe it is. But there is need of moral conversion. Moral conversion from greed? Yes, but much more urgent is intellectual conversion from culpable ignorance in educational institutions.

RECOMMENDATION FOR EDUCATIONAL INSTITUTIONS

Specialists in all the human sciences including moral theologians now have a greater responsibility than ever before of learning and discerning the cognitional processes at work in departments of economics. Of course departmental autonomy must be preserved and academic freedom respected. But creative communication between departments is lacking, especially in large universities.

Perhaps the moment has come to re-study the present educational structure and to examine its authenticity. Perhaps judgment of its authenticity or inauthenticity can be based on its success or failure to transform the cognitional potentialities of human nature into the standard of living of the whole society. Perhaps the present field specializations of university departments can now be re-tooled and enriched by functional specializations in the human sciences proper to the educational service needed by the world at this critical threshold of history.

The concept of an upward movement in the history of macroeconomics may be symbolized by an ascending spiral of which one loop is sketched above. This is based on Lonergan’s account of emergent probability in which “a series of positive conditions for an event might coil around in a circle.” (Insight, 141)