

REVIEW ESSAY

FROM LEECHES TO ECONOMIC SCIENCE

A REVIEW OF PHILIP MCSHANE'S *PASTKEYNES*
PASTMODERN ECONOMICS: A FRESH PRAGMATISM

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In *Economics for Everyone* Philip McShane draws an analogy between the circulation of blood and the circulation of money. He asks:

What is blood? It is an aggregate of circulating components that pertain to the health of an organism. Roughly, red cells oxygenate, white cells repair, platelets coagulate. Correspondingly, there are illnesses: red flow shrinkage breeds anemia; white flow can oscillate into leukemia or leukopenia; platelet disorder can have the modesty of an aspirin intake or the massiveness of thrombosis. Details are not relevant here: my point is that these distinctions and related practices are part of our culture. Relevant advances in understanding have led to common talk and acceptable practices. Hospital staff may have slight understanding of the chemistry of leukemia and anemia, but leeches are normally out.

In the economy there are three fundamental components of circulation ... There is, if you like, the red flow of consumer circulation; there is the white flow of repair and replacement of production goods; there is the platelet pattern of a redistributive creative inhibition of clotting. Sometime in the next

millennium the precisions of Schumpeter and Lonergan and Kalecki regarding these functions and their control will be common talk, a common ethos. Random transfusions of government blood and the casinos of economic leeching will be identified, ridiculed, abhorred, in their unintelligent destructive ugliness.¹

But we are not there yet. How can we get moving from leeches to economic science? What actions can we take to initiate the shift toward a time in the future when economists take the basic, surplus, and redistributive circuits for granted? This is the subject matter of Philip McShane's recent book *Pastkeynes Pastmodern Economics: A Fresh Pragmatism*.

Pastkeynes Pastmodern Economics is Philip McShane's fourth major effort to generate serious interest in Bernard Lonergan's achievement in the field of economics. McShane's previous works include *Lonergan's Challenge to the University and the Economy*, *Economics for Everyone*, and *Beyond Establishment Economics*. Unfortunately, even with these books and Bernard Lonergan's two volumes, *For A New Political Economy* and *Macrodynamic Analysis*, Lonergan's challenge to the economy remains to be accepted. What, then, are the strategies on offer in *Pastkeynes Pastmodern Economics* that point towards economic science?

1 Pragmatic Moves toward Economic Theory

Philip McShane has two things to say about his book *Pastkeynes Pastmodern Economics*. One, he claims the book is "introductory," "a beginner's book pointing to the emergence of economic science." Two, he claims the book is "pragmatic," "a new reach for economic wisdom." My aim is to assess these claims. I proceed by tackling the book, one chapter at a time, identifying McShane's strategies and arguments, and commenting on them as I go. At times I pay close attention to McShane's text, and you may find this heavy-going. I do this because I want readers to "get" what he has to say, and also

¹ Philip McShane, *Economics for Everyone: Das Jus Kapital* (Axial Press: Halifax, 1998), 2-3.

how he says it.

Let's begin with chapter one. Previous efforts (not only McShane's) to help people read Loneragan's *five-square* diagram, whether in print or on websites, have had minimal success. Such explanations are overly complex and impenetrable for beginners. Beginners are immediately thrown smack-dab into the middle of an economy experiencing a surplus expansion: banks are adding money to the circuits, governments are spending money, production is taking off, wages are growing, everything is surging. This is too much for a beginner to take in at one time. The problem, as I see it, is that such presentations have been shaped by, and are overly dependent on, Loneragan's dense presentations and ordering of the same topics. Focussing a beginner's attention on an entire economy is like throwing a non-swimmer off a wharf and hoping he will learn how to swim. Wouldn't it be better to let a beginner slowly wade in one business at a time?

These are precisely the type of problems McShane successfully solves with his "fresh" introduction to Loneragan's *five-square* diagram. In his first chapter, called *Some Key Facets of Economics*, his concern is his family's bread making business. This presentation is far less complex than McShane's previous efforts to communicate Loneragan's circulation analysis where he focuses on innovations, major surges in production, and trade. Here he traces how the money associated with maintaining his family's business was spent. Any business person would recognize that buying ingredients, making bread, and selling it, is quite different from saving up and buying a new dough-mixer. By gradually drawing out the differences between buying bread, and buying and selling dough-mixers, he introduces the basic and surplus monetary circuits at a pace beginners can handle.

The way he tackles *pure* surplus income is particularly effective. He begins with *profit*, something familiar to us all. He explains what profit meant for the family business: they could pay themselves and they could save for a rainy day when they had to replace a dead horse or bury a dead relative. But the family didn't envisage expanding their business. In this simple illustration, he identifies profit that is *merely* surplus

income and profit that is *pure* surplus income and distinguishes it from basic income. This certainly is a novel way to introduce such complex matters in that McShane first distinguishes between how the family could spend its profit and then he attaches names to the distinctions. By contrast, typical presentations begin with a name and then the term is lazily defined. For instance, pure surplus income is usually portrayed as what is left over after all expenses have been paid.

The main point of this chapter, and for me the key facet of economics, is that “properly analysing the simple stable ... economy requires the distinction of two circuits of product flow being met by two circuits of monetary flow and without that distinction our economic thinking remains fuzzy, and indeed pretentious.”²

Further fresh pragmatism is on offer. McShane also uses what, presumably, would be called doctrinal talk, that is talk that identifies some key facets, or key pragmatic truths, of Lonergan’s economics. The effect of this strategy is to immediately turn beginners towards the guts of Lonergan’s theory, thereby saving them time and avoiding wasted efforts. It is worth collecting them here.

* If you want to understand economic theory “find out how a stable happy or unhappy economy works before tackling the issue of stimulation, renewal, development” (29).

* “If you want to know what’s going on in an economy or a bakery, or a machine business, you need to keep straight two distinct demands, and of course, two distinct effective demands” (14).

* We need to precisely identify two flows in the economy, a basic flow and a surplus flow. “There is no fuzzy flow in between. A good or a purchase is in one or the other flow” (21).

² Philip McShane, *Pastkeynes Pastmodern Economics: A Fresh Pragmatism*, (Axial Press: Halifax, 2002), 23. Citations to follow in the text.

* “There are two circuits, two effective demands, two national incomes, two taxation flows, and eventually the distinction between two types of import and of export would be relevant, necessary ... The key to economic sanity and health is to hold firm to the idea that one circuit draining the other is a no-no” (27).

* “The real difficulty ... is in the scientific perspective that can come to grips with precise functional distinctions. Surplus goods are related functionally and indeterminately to consumer goods. All the financial flows that relate to the real flows of these two genera of goods require a like distinction if we are to get out of the global and local mess that is mismanaged by descriptive and expectational analyses” (22).

* “Economic science is about what actually happens: it is to be based on past and present facts” (15).

* We need the five-square diagram to know (and control in some sense) economic activity (15).

* We need a fundamental shift of attitude that “eventually makes economic practice more like coaching a baseball team to win, less like planning train arrivals” (17).

* The community, layered upwards from local region to state to nation to globe will maintain balance, control of the economy (28).

* Following the Pragmatic Principle will help us to adequately understand economic activity: *Try to understand as best you can what you are dealing with or using and roll with that understanding* (28).

Without doubt, Chapter One is a fresh and pragmatic introduction to Lonergan’s economic theory.

In Chapter Two, called *For A New Political Economy*, McShane continues his effort to guide beginners through the dense forest of Lonergan’s economic theory. Here he does something that comes as a surprise, yet makes such obvious

sense that it is a wonder no one thought of it before. He identifies ten of Lonergan's own introductions to his theory, and suggests that we read them. The overall aim is to keep the beginner from getting bogged down in advanced complexities in Lonergan's texts. The novel stroke is how McShane pragmatically uses Lonergan's own writings. Next McShane suggests working towards an understanding of the effects of innovative surges on an economy. Wisely, he directs readers to the first chapter of his previous book, *Economics for Everyone*, where he discusses an economy facing a major innovation – the discovery of the plough.

However, in the midst of this chapter McShane directs readers to the fuller context in which economics is seen as one of many problematic zones. Section 2.4, called *Genetic Systematics*, marks the transition from introductions to economic science to a new set of introductions, introductions to functional specialization, what McShane calls *hodic* collaboration. Economic science, he says, requires functional specialization. He carries this focus into Chapter Three titled *Inventing Pragmatics*.

2 Pragmatic Moves toward Functional Specialization/Hodic Collaboration³

In light of the fact that so few scholars have tackled functional specialization in any discipline one of the greatest educational challenges we have to face is how to help readers get to grips with functional specialization. The way that McShane does this in the context of economics is, in my view, creative and effective. It is well worth examining his strategy in detail. This is one of the most important parts of his book.

McShane begins with a brief discussion of genetic system. Here he raises, in general terms, the issues which he will tackle in more detail immediately below under the rubric of functional specialization. The broad point that he wants to communicate is that it would be worthwhile for economists to consider the past in order to shape the future. His rhetorical strategy is to consider tennis players assessing their past

³ Philip McShane refers to functional specialization as “hodics” and “hodic collaboration.”

performances in order to make themselves better players. He portrays this effort as a reach towards a genetic ordering that includes both flaws and successful moves.

Economists, he argues, should cultivate the same orientation. The history of economic systems should be ordered in terms of both good moves and ideas and deviant systems. Also, he notes that in this reach for genetic system, a group of economists would have the task of detecting and discerning both deviant systems and progress.

The way he presents *hodic* collaboration is brilliant. He begins on familiar ground – the problem of conflicting policies. He identifies characteristics of policies. *Policies*, he writes, “evidently do not emerge out of a vacuum. At the very least they emerge out of a party with a family tradition. They come out of a particular tribal history, Republican, Marxist, Maoist, Muslim, whatever. They are, by that fact, not agreed upon” (53). For instance, political parties may differ on tax policy. “The divergence may go beyond tribal history to differences in economic perspective and the history of those differences. It takes no mighty effort to sense how the tracing might bring us back to the emergence of tax in the first place, to primitive rulers and ancient projects” (54).

Next he identifies the problem of ordering the concerns, and sorting out what is right and what is mistaken, in economic journals, monographs, texts, and magazines. “Here or there a significant ideal breaks through, and so, for instance, Keynes gives rise to Samuelson’s texts. Are there significant ideas lost? Are there old mistaken ideas that survive in new disguised forms? We are clearly back here with Schumpeter’s challenge regarding economic theory and practice: contemporary economics is or should be a struggle with past views and achievements, a struggle towards a better future. But the struggle, as represented by present publishing, is a scattered thing, its outcome a matter of convention, luck, nationality, influence, bias. Is there a better way?” (54)

His next move is to invite the reader to engage in a thought-experiment by asking, “Can you make sense of it all?” “Can you find some order in the present spread of interests and printings?” (55) He identifies various patterns in economic

publications: half of economic studies focus on the past and half of economic studies turn to the future. This observation doesn't seem too surprising.

He returns again to familiar territory when he writes that "*policy, planning, and execution* are connected ... Without *planning* there can be no *executive reflection*; without *policy*, the *planning* is not grounded. But what grounds the *policy*?" (55) With this question he raises the question of how the past is linked to the future? "Certainly we can say that the policy is grounded in history, some history... *Policy* swings from *history* towards the future: but can we say more about the swing?" (55) His answer is that the swing or link between the past and future is *Dialectics*. He continues. "The swing, then, is represented by a vague collection of publications regarding critical assessment and selection..." He draws again on sports to make his point about the role of discernment: "Time-out or half-time in a football game is a space of critical assessment and reflection, and the reflection ends with suggested or dictated proximate plays" (55). Here the obvious significance of the time-out to football teams bolsters his point that there is also an obvious need for economists to assess the past before turning to policy making.

He pulls his discussions together: "The grounds of *policy, planning, and particularizing* somehow lurk in the given of previous efforts" (57). Those previous efforts are the evident result of economic research, opinion determination or interpretation, economic history of both ideas and facts. But between the searching of the past – *research, interpretation, history* – and the three zones of future intent – *policy, planning, executive reflection* – "there is a haze of human fallibility, but it is expressed in a rich literature of controversies about methods, analyses, grounds, goals: at root, controversies about the nature and goal of human life" (58).

"If we debate about the future, it is in virtue of our presence in the past. *Discernment* seems a reasonable name-candidate for that end of the haze. What of the turning toward the future that somehow would seek to ground policy? Obviously, there is the name *Foundations*." "What sort of

reality would blossom into a canon?⁴ The sort of reality that would exclude stupid policies. But then who is to say what stupidity means? So, we circle back in the haze to *Discernment*" (58).

He reaches for some sense of the tasks named *Discernment* and *Foundations* by analysing "a couple of classic ain't sos of twentieth century economics" – the IS/LM analyses found in articles by Michel de Vroey and David Romer. McShane claims that discernment requires asking "What is going on in these articles?" Here discernment means identifying which of the eight functional specialties can be detected in these articles. In his opinion, De Vroey is into *Interpretation, Dialectics, History*, and he suggests the reader discern de Vroey's shifting interest paragraph by paragraph. And Romer, he says, focuses on *Dialectics, Planning, Policy, and Executive Reflection*.

McShane asserts that "discernment can reach further." He suggests that "de Vroey and Romer are trapped in the traditions of their journals, their departments, or larger traditions of equilibrium analysis, or old versions of the quantity theory of money, or comfortable assumptions about money and growth, or non-growth" (68). Here discerning reading of these articles would ultimately leave them out of hodic collaboration.

Now McShane is ready to give more refined suggestions about what discernment entails. He asks, "Is there a way beyond this jumble of interpretation and histories, criticism and discernments, policies and theories and practical suggestions? Three directions are discernable ... There is a first direction ... of discerning hodic overlaps, of relocating tasks that belong properly in other specializations, of identifying theoretic flights from the empirical basis." (70)

"The second direction [is] developing a pragmatic inner structure to collaboration in discernment. Both directions, when taken, will lead eventually to their own refinement." (70) He provides a brief sketch of this direction: "this work of assembly, completion, comparison, reduction, classification, and selection will be performed by different investigators and they will be operating from within different horizons. The

⁴ Here the term Canon is equivalent to the term Foundations.

results, accordingly, will not be uniform (lines 15 to 18 [on page 250 of *Method in Theology*]), but at least we may expect some improvement on the jumble illustrated above. That expectation, however, would benefit from a book-length consideration of the page to which I have just referred. But even without such a consideration the present book and Lonergan's achievements to which it refers will eventually ... join the assembly and make discomfiting metaeconomic waves" (70).

The third direction calls for a larger reflection on education. The Pragmatic Principle of "finding out as best you can how something works, and roll with it" (55) also "requires that the lack of uniformity mentioned becomes a topic among investigators. Sensability requires that the sorties and the discernments make sense, that the different horizons, being rooted in sensability, cannot be more than culturally different if sensability has somehow some space-time pragmatic uniformity" (70).

McShane's next significant move (also in Chapter Three) is to enlarge his concern with the pragmatic ordering of economic studies to *all* studies. He identifies the lack of organization as a broad academic problem: "The situation in economics is not unique ... a similar fragmentation of studies, implementations, practices has occurred right across the academic board." There is a need for a division of labour in theology, literature, linguistics, physics, chemistry, botany, zoology, geometry, and so on.

He offers a guide as to how the work should be divided up into eight tasks. His outline immediately below conveniently captures what lies buried in *Method in Theology*. It offers beginners a point of reference.

H1 *Research*: finding relevant data, written or otherwise.

H2 *Interpretation*: reaching the meaning of such data, the meaning of those producing the data.

H3 *History*: figuring out the story, connecting the meanings of the writings and the doings, etc.

H4 *Dialectic*: coming up with the best story and the best basic directions.

H5 *Foundations*: expressing the best fundamental (in the sense that they are not tied to age, time, etc) directions.

H6 *Policies*: reaching relevant pragmatic truths.

H7 *Systems-Planning*: drawing directly and contrafactually on the strategies and discoveries of the past to envisage ranges of time-ordered possibilities.

H8 *Communizing*: local collaborative reflection that selects creatively from the ordered range of possibilities (62).⁵

To drive home the point that we can find order in the disorder of various disciplines, McShane draws on Husserl's essay on *The Origins of Geometry*. McShane selects eight quotations from that essay. He classifies each selection from *The Origins of Geometry* in terms of one of the eight functional specialties. In other words, the eight quotations from Husserl constitute a rough parallel to the eight hodic tasks. For instance, one quotation is an instance of interpretation. Another text is a policy statement. In the next chapter this exercise in concordance takes on a fresh significance for people interested in learning about functional specialization. Economic texts are selected and readers are asked to determine which functional specialty the text roughly corresponds to.

3 Pragmatic Moves toward Discernment in Economics

In Chapter Four, *Macroeconomic Dynamics*, we return to economics. The topic is discernment. McShane invites his readers to engage in discernment. We are told to read other authors' introductions to Lonergan's economic theory, introductions by Fred Lawrence, Charles Hefling, Patrick Byrne, and by himself. But this time we are to read these introductions in terms of eight functional specialties. Our job is

⁵ In various efforts to come to grips with the eighth speciality which Lonergan names "Communication," McShane has, on various occasions, referred to it as both "Executive Reflection" and "Communizing."

to identify the hodic tasks in the various texts differentiating what each author is doing paragraph by paragraph, section by section. The point of doing this exercise is “to bring forth in yourself the division of labour.” This strikes me as an excellent way to introduce functional specialization. Another reason for doing this exercise is that, as I mentioned above, the exercise itself is an exercise in dialectic. It is what people in *Dialectics* do.

The remainder of this chapter identifies specific discussions and debates that call for discernment. I will mention just two.

In the context of offering broad pointers that he thinks may help advance and communicate economic understanding McShane identifies differences between Patrick Byrne and himself regarding Lonergan’s diagrams and terminology. Not only does he use this discussion to indicate that differences among Lonergan’s editors call for discernment, but also that functional specialization must be turned on Lonergan himself. In other words, Lonergan’s contributions must be “recycled” by functional specialists. McShane pragmatically divides up the work.

So, I would distinguish a cluster of *hodic* tasks. *Research* on Lonergan’s archival material is incomplete. As it advances it will supply grist for the mill of *Interpretation* and *History*. *Discernment* has to locate Lonergan’s theoretic and terminological efforts within the context of others within and surrounding economics. The *Canons* that emerge from this enterprise will, I surmise, bear a striking resemblance to the canons that can be detected in *CWL* 21. The move to *Doctrines* will then yield the advice to plain men and women that he dreamed of, here globally and accurately conceived and richly expressed. That accuracy will lean both ways, back towards *Canons*, forward towards the genetic *Systematics* that I attempted to describe earlier. Then one can look to a quite new view of *Communications*, a radiant reaching for community, the village collaboration of women, the wise presence of town economists, the

influence of block entrepreneurs, the caution of government, all opening out in a global rational expectation to the rhythms of the fields and forests and air and oceans in their crying out for attention, for creativity, for care, for cultivation, for a higher civilization that strangely sublates present notions of local fishing, fowling, husbandry, and gardening. (85-86).

McShane ends this chapter by identifying the presuppositions of teaching and learning Lonergan's economics. Stated simply, they are sufficient interest and energy. This, I'm sure, will come as a relief to many people who believed they had to become experts on cognitional theory before they could tackle or teach economics.

4 Pragmatic Moves in the Education Field

In Chapter Five, *A Fresh Pragmatism in Education*, McShane extends his discussion of fragmented studies to the field of education. It may seem strange to have a chapter on education in a book on economics. But education is crucial to economic science for two reasons. One, according to McShane, the problem of fragmentation in education is even "more complex than elsewhere precisely because education ranges throughout all the disciplines and all the ages" (110). And, two, McShane's position is that without a turn to the subject we will not be able to move from a centralized perspective toward economic democracy. Moving towards micro- and macro-autonomy, he argues, demands that we self-luminously consider our desire and need for serious understanding, for leisure, for fantasy, for personal autonomy.

This chapter can be understood as an effort to pragmatically deal with fragmentation in education by trying to identify what progress in education might be. McShane writes about progress in terms of *canons* which he characterizes as minimal discoveries. One canon is that *we should be sensible*. Another canon is that *we should divide up the work*. Although these canons might easily be read as *Foundational* or *Policy* statements made by functional specialists, that is not McShane's intention. The world of hodic collaboration remains

a distant achievement. Rather, he regards these canons as acceptable simple pragmatic truths, something that everyone would agree on regardless of their philosophical orientation.

Here his rhetorical appeal is to everybody. No one can pretend to be doing anything worthwhile if they are not sensible. And isn't it obvious that a division of labour is being forced upon us in all disciplines, even education?

The difficulty of reading *canons* as minimal common sense pragmatic truths is that his treatment of canons is entwined in discussions stressing the importance of self-discovery in education and pointings toward a distant fuller context for discussions of progress, namely functional specialization. For instance, in this chapter McShane points to the distant and future pedagogic use of generalized empirical method when he uses a slogan -- "when teaching children X you are teaching children children. And you are discovering your own sensibility's cry" (108) -- in order to point to the future when self-discovery will be part-and-parcel of teaching anything.

5 Concrete Pragmatic Strategies

The final chapter, Chapter Six, is called *Proximate Pragmatics*. In this chapter McShane identifies and discusses particular actions we can take to promote Lonergan's economic theory. I will focus on only two of them. Again, these courses of action seem so obvious you have to wonder why no one else has thought of them and why there isn't a team carrying them out.

For McShane the key project that should be started is to write a 500 page introductory text to Lonergan's economic theory. Its aim should be to generate fundamental insights. What is novel about this course of action is that he says the book(s) should be *empirically-rich, locally-oriented, normatively-focused, and non-truncated*. This book should be *empirically-rich* in the sense that we should study and find out what is actually going on in economies. It should be *locally-oriented* in that it should be concerned with the economies of local neighbourhoods, villages, towns.

These conditions make sense. Take introductory

economics textbooks by Gregory Mankiw or Robert Gordon. They are used in the United States, Canada, and the United Kingdom. The same text is assumed to be appropriate for each of these three countries. These texts are neither *empirically-rich* nor *locally-oriented*. But even newspapers give the impression that the economies of these countries are quite different. You would think that each country needs its own economic text. The notion that 'one text fits all' becomes even more dubious when you consider, for instance, the Californian economy which is one of the largest economies in the world. Surely the Californian economy merits understanding and an appropriate textbook. Now take New York City. Isn't it safe to say that its economy is likely to be quite different from that of upstate New York? So wouldn't it make sense for an economic text to be devoted to the productive and monetary flows in New York City? When you briefly consider McShane's suggestion that economic texts should be *empirically-rich* and *locally-oriented* it becomes blatantly obvious that we should be identifying and studying the data of economics.

Such a text should also be *normatively-focussed* so that economic sense and nonsense can be learned. Further, McShane stresses that it should be *non-truncated* in the sense that by paying attention to what we are doing self-discovery can become part of learning economics.

McShane also suggests that we make strategic moves in various disciplines to promote Lonergan's economic theory by filling in gaps. For instance, distinctions made by accountants between operating and capital costs could be exploited to educate people about the basic and surplus circuits. Disillusioned economists could be nudged toward taking the politics out of economics. This would build on the view of many economists that politicians distort and mess up economies with self-serving economic policies. Liberation theologians could be helped to recognize that they need a serious perspective on economics in order to cope with poverty and debt. The growing opposition to the so-called Washington consensus might also be nudged toward economic science as the flaws in establishment economics are revealed by economic science. Business ethics professors could be invited to see that

they need a theory of economics beyond the profit motive. The outcry over recent business frauds and questions about the purpose of business could be directed toward thinking about the links between successfully running a business and successfully running an economy.

Pastkeynes Pastmodern Economics ends with an Appendix called *Trade Turnover and the Quantity Theory of Money*. This is a remarkable part of the book in that it invites readers to discover for themselves a startling solution to the quantity theory of money. McShane moves well beyond the simplistic notion that $MV=PQ$ and well into a context where the circulation of money in an economy is related to the frequency and magnitude of the production and sale of goods and services. This little gem is definitely worth reading.

To conclude, this is one very sensible book. It is full of fresh pragmatism. There are simple introductions to Lonergan's economic theory, novel introductions and discussions of functional specialization in economics and education, new minimal pragmatic canons of progress, such as 'be sensible and divide up the work,' refinements of Dialectics, and some very sensible (and sensible) advice about writing introductory economic texts and exploiting gaps in various fields. To put it bluntly, if we want to move from the leeches of pre-scientific economics to scientific economics we need to take this book very seriously.

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