

Economics' New Standard Model

The Economics of Social Services: An Issue of Both Theory and Practice

Hugh Williams

Introduction

Bruce Anderson of St. Mary's University in Halifax and a student of the economics of the Canadian philosopher Bernard Lonergan argues for a locally oriented (as opposed to globally focused), empirically-rich, normative approach to economics guided by Lonergan's economic theory.¹ In what follows, I will attempt to articulate a tentative theory based upon my own experience in social services in New Brunswick. This theory is not as yet empirically-rich, at least not in any quantitative sense, because the quantitative data that would track payments and exchanges through the cycles of the two fundamental functional economic circuits and their fundamental variables is data or statistics that does not exist today either locally or globally. This is explained by Anderson and his colleagues as due to the muddle that is said to be the sad fate of contemporary economics and government policy. Nonetheless, this type of analysis is key to the verification of Lonergan's theory, and the exchanges that constitute these flows are manifest in both local and global transactions. At this stage, we still can speculate based upon qualitative indicators and anecdotal evidence from people's personal experience.

Basics of the Theory

A recurrent difficulty confronted in any attempt to communicate this theory is the claim by those who know a little about conventional economics, that there really isn't anything new in Lonergan's economic theory. So in the interest of clearing the air on this issue of its novelty, a short review and reiteration of our own present understanding is in order:

1) Lonergan distinguished all the flows/circuits of productive work by their functional relationship to the increment of ultimate products produced in the economy. The basic

¹ Bruce Anderson, "Economics: As If Local Community Mattered", *Catholic Rural Life Magazine*, (Iowa, Spring 2004). Bernard Lonergan was a Canadian Jesuit philosopher-theologian whose major works are *Insight* (Toronto: University of Toronto Press, 1997) and *Method In Theology* (Toronto: University of Toronto Press, 2007). His economic theory is primarily found in two works: *For A New Political Economy* (Toronto: University of Toronto Press, 1998) and *Macroeconomic Dynamics: An Essay In Circulation Analysis* (Toronto: University of Toronto Press, 1999). For an excellent popularization and development of Lonergan's economic theory see Philip McShane, *Economic For Everyone: Das Jus Kapital* (Halifax: Axial Press, 1998); Philip McShane, *Pastkeynes Pastmodern Economics: A Fresh Pragmaticism* (Halifax: Axial Press, 2002); Bruce Anderson and Philip McShane, *Beyond Establishment Economics: No Thank-you Mankiw* (Halifax: Axial Press, 2002).

circuit or flow (DA') contributes to the emerging standard of living, and what he awkwardly calls the surplus flow (DA'') contributes indirectly to this standard of living. Thus all flows are identified in terms of relationship to the emerging standard of living. L identifies these two fundamental flows (basic and surplus) by this formula— $DA=DA'+DA''$. This symbolization means simply that the total economic flow as **Determinate Activity, DA**, is made up of two different determinate activities—a basic flow = DA' and a surplus flow =DA''. The equation has no quantitative meaning at this point, and yet much can be said as to the relationship of the two flows to each other. **And it is this distinction that gives Lonergan's theory its uniqueness, for though many economists make a nominal distinction between consumer goods and producer goods, it is not a causal distinction crucial to the explanatory basis of their theories. In standard theory GDP and GDI as standard measures of economic activity mix together consumer and producer goods. Lonergan's claim is that there is a real functional distinction between basic and surplus flows (that is causal) and thus is fundamental for economic analysis. Without this causal reach in the theory there is no economic science for to assume that all economic activity is of the same flow is an error analogous to assuming the planets move around the sun in a circle instead of an ellipse resulting in various space satellites and probes missing the mark/target.** Further, one has to know to which flow a set of activities belongs and we do not need to talk of markets, exchange, money, taxes, or financial instruments, at this fundamental level of enquiry because all these developments (constructions) of human intelligence are causally influenced as effects by these fundamental variables of the two distinct flows of productive work.²

2) Lonergan introduced the distinction between basic and surplus productive processes and he attributes special significance to innovations in producer goods for these can accelerate production. **Lonergan's distinction between basic and surplus production occurs within the totality of the productive process. Again, the basic productive process consists in those activities that produce goods and services that enter directly into society's standard of living whereas surplus production produces producer goods and services for the productive process itself and are not themselves used in people's standard of living. They are used in the productive process itself either by those who make basic consumer goods and services or by those who make surplus or producer goods and services. This distinction is not original with L but it is Lonergan's nuanced definition of basic and surplus that is original for he aims at a theory of economic acceleration (or development). What is it that gets accelerated and what does the accelerating (or what is the effect and what is the cause)?**

²See Michael Shute, "Two Fundamental Notions Of Economic Science" in *The Lonergan Review*, (Spring 2010) pp. 95-106.

Lonerger's theory is about the accelerations of the productive processes because changes in the ways or methods of production can accelerate production itself and thus elevate the standards of living.³

We perhaps can get a better grasp on the theory by simplifying the illustration with an example from the primitive human effort in a hunter-gatherer economy to put into practice *the idea of baskets* (emerging from the surplus flow—DA") and the normative issue of how this effort must be ordered somehow to serving the basic flow (DA') of gathering of food.⁴ And further, we can see imaginatively how if this is not done in the service of basic food gathering in some way, many of us could go hungry as this surplus activity (DA") drains the energy and routines from the habits of our daily work of food gathering (DA'). All this is quite concrete and something some of us may be familiar with through other types of conventional economic analysis and theory. But further, for there is more much more in this doctrine, the commitment to our daily work of food gathering can be structured such that surplus activity is drained so that either there are no ideas possible or allowed, and/or that their implementation is blocked and frustrated. This would be the basic flow draining or blocking the progress or creative advance offered by the surplus activity of some economic actors. This too must be a serious concern. This perhaps is a more primitive illustration of the reasons for the concerns around inflation, government deficits, and excessively high cost credit. This insight may be somewhat novel for many of us. Hence it is often said that Lonergan's theory navigates ably between the "left leaning liberal view" and "right leaning conservative view" in a particularly original manner.

The Local Focus

Our own local situation that we believe has considerable relevance for this enquiry, involves a series of recent "policy and programing" discussions around the functioning of the NB provincial social services system. These discussions involved both government policy people and community based service practitioners. Certain key players, provincially and nationally, in the profession of social work were also participants in these discussions.

The issue could be considered properly a concern of what is called *civil society* as distinguishable from the *state* and the *market*. The state is understood to be concerned

³ See Patrick Byrne, "The Economy: Mistaken Expectations" in *The Lonergan Review* (Spring 2010) pp. 10-34.

⁴ I need to acknowledge the great help of Michael Shute in assisting me to better understand and appreciate Lonergan's economic theory. See his two papers "Real Economic Variables" in *Divyadaan: Journal of Philosophy & Education* Vol. 21, No.2 (August 2010) pp.183-194; "Two Fundamental Notions of Economic Science" in *The Lonergan Review* Vol II, No.1, Spring 2010, pp.95-106.

with public goods and mobilizing resources through state authority; the market on the other hand is understood to be concerned with producing private goods and services and mobilizing resources through market exchanges; and civil society is concerned with common goods defined by social groups and it is understood to mobilize resources through social values and visions. Of course in this instance of social services, there are intersections and considerable areas of overlap, especially between civil society organizations and the state. The social service sector lies somewhere between civil society and the state providing, in general terms, social problem solving, services, and supports to disadvantaged individuals and populations. Now when the economy is in crisis, social services experience resource cutbacks, which at times are severe and can have devastating consequences for many people. When a social policy planner and advocate comes up against an economic planner or financial planner in government during an economic and fiscal crisis, it doesn't take much imagination to determine who these days is listened to first, who has most influence, and who tends to carry and direct the policy discussion towards the theoretical viewpoint and practical interests they represent.

Social policy people are generally viewed as spenders. In general terms in the policy discourse, the only recourse for social policy people is for them to trace in some manner how there has been over time an "unfair" transfer of income from wages to profits, which have been paying less than their fair share of taxes. Many believe there is considerable evidence today to support this argument. However, when taking such a tack in the standard discourse, it is very difficult for social policy representatives to not end up sounding like liberal leaning "tax & spend" advocates.

What tack can be taken to effectively offset this powerful and fatal drift in the public policy discourse? What can Lonergan's theory say or point to that would get the attention and interest of government planners and members of key professions such as social workers at least at the provincial level? What can be said to direct someone who is paying attention and has some influence at the level of provincial policy to move to this new middle ground between *liberal* and *conservative* economic interests that Lonergan is said to occupy theoretically? It simply cannot be, in my view, an elaborate theoretical discussion of the "two flows" without some recognizable illustration as to the difference it would make in the economy as we concretely now know and experience it locally. Therefore in this discussion, it is to the local social service system's functioning we turn.

We propose that there is a viable analogy to be drawn from the two functional flows or circuits of the economic system and applied to what happens in the social service system. The basic circuit we would argue is analogous to direct services, whereas the surplus circuit is analogous to what we can call indirect services. It becomes very important to be able to identify what activity is attributable to what variable in the two flows and how the

two circuits interact and how this interaction affects the balance or service equilibrium between the two functional flows. To what degree is the indirect flow of governance and other associated activities ordered to serve direct service? This ordering we would suggest is necessarily a normative relation of subordinated function.

One of the first challenges is a serious difficulty in being concrete in discussing any local sector of activity such as local social services. There is a drift in the discourse to high levels of ineffective generalities (government tax and spend, or cut and save for private investment), which reinforces a serious disorientation that prevents attending to our actual situation and its injustices and its overall decline.

At this stage, we propose that there are seven soft axioms that are identifiable to steady and secure the analogical application of the theory to the social service system and that there are some genuine insights obtainable:

1. The **social service system is the aggregate of activities** proceeding on the basis of the taxing of economic activity and ending in the delivery of goods and services for the support, protection, and well being of clients eligible for, and in need of these goods and services.
2. **Direct goods and services** enter directly into client's support, protection, and well-being. **Indirect goods and services** enter into client support, protection, and well being as general improvements to the service system's quality and efficiency in part or in whole, and indirectly through this means they also eventually affect clients well-being.
3. The social service delivery system is **part of the public sector** in NB because in its fundamentals, government organizes it for the delivery of public goods. Our society through government has developed institutions to support and care for those needs of society's members that are not and cannot be met adequately by the market.
4. The scope and size of this public sector rests on the extent to which the **citizenry is willing to transfer income to government in taxes** to help those who are eligible and in need of income and social support and are themselves in many cases unable to pay taxes.
5. The **community based segment of this public sector can be a source of innovation and efficiency** in the delivery of social services and as well can supplement crucial services in health, education, and social welfare.
6. In this social service system there then exists analogously to the economy, two functional flows of activity, direct and indirect service, each with its own final goal. **The balance of direct and indirect services conditions the balanced**

functioning in the system. Each flow must have some degree of continuity and stability – of direct service outlays yielding direct service deliverables, and indirect service outlays yielding indirect service deliverables. Thus direct and indirect services yield direct and indirect expenditures and benefits for social service delivery.

- 7. Disruption in this system's functioning results when one functional flow is being drained by the other.**⁵ This causes overall system dysfunction and admittedly this can be caused by the limiting of needed resources coming into the system as a whole, but it also (and this is a new insight and is too easily overlooked) is caused by how resources are distributed between the two functional flows of direct and indirect services within the system.

There has been in the formulation of this hypothesis, as speculative and tentative as it is, considerable experience and data gathered at both the provincial and local regional levels over the years—including surveys of human service workers, environmental scans of offices, independent consultants, auditors' and advocates' reports, extensive personal narratives, and the like. We do need to ask—is the basic hypothesis as captured in the seven soft axioms really so? This means asking the question on two levels, theoretical—does this analogical application of the two functional flows from Lonergan's theory provide a coherent explanation of system functioning (or disfunctioning), and empirical—can we test this theory in both qualitative and quantitative ways? It is the systematic comprehensiveness of a theory combined with its verifiability that lifts a theory into "science" and knowledge. The key to the verification of the economic dimension is the tracking of goods and services that are exchanged for payment through the cycles of the circuits/flows, but this for the most part involves statistics that do not exist as yet because

⁵ The core thesis of Lonergan's theoretical argument is summarized by McShane: "... that there are two circuits, that we must push for an appreciation of their dynamics, for a search for accurate measurement of the actual within the dynamic, and for a modest but creative control of that dynamic in a mesh of local and global creativity." Philip McShane, *Pastkeynes Pastmodern Economics: A Fresh Pragmaticism* (Halifax: Axial Press, 2002) p.86. Lonergan himself sums up the doctrine this way: "There exist two distinct circuits; each with its own final market. The equilibrium of the economic process is conditioned by the balance of the two circuits: each must be allowed the possibility of continuity, of basic outlay yielding an equal basic income and surplus outlay yielding an equal surplus income, of basic and surplus income yielding equal basic and surplus expenditure, and of these grounding equivalent basic and surplus outlay. But what cannot be tolerated, much less sustained, is for one circuit to be drained by the other. That is the essence of dynamic disequilibrium." Bernard Lonergan, *For a New Political Economy*, University of Toronto Press, 1999, vol. 21 of *The Collected Works of Bernard Lonergan*, p. 255.

of the theoretical disorientation that exists in economic and government thinking presently.⁶

Anecdotal evidence suggests that indirect and overhead costs within government departments have increased disproportionately and that there is an inherent tendency to spend too much on overhead relative to attending seriously to direct service resource allocations. For example, in recent estimates the Department of Social Development's total rate of budget increase (which would include both direct and indirect services) from 2010-2013 is estimated at 7.5% whereas the rate of increase for the Department's "Corporate Services" (which would be primarily for indirect services) shows a rate of increase of 14.1%.⁷

The hypothesis is that there have developed over the years serious imbalances in the system located primarily in disproportionate expenditures for indirect or overhead versus direct services.⁸ This imbalance has contributed to a marked draining of the energy and talent in direct services that has now become manifest in critical ways. It is primarily expressed as an acute problem in the recruitment and retention of quality practitioners in front line community based service delivery where remuneration levels have now deteriorated to little more than minimum wages for the majority of practitioners who are primarily women and who are now subject primarily to the supply and demand forces of the *market*. And yet government policy people or representatives of the *state* are on record repeatedly as saying these direct service workers are indispensable to the delivery of quality social services. This situation if true both reveals and explains a serious violation of the normative relations within the system resulting in an undermining of the quality of direct community based services and practices. This we believe constitutes a mounting crisis for both *civil society* and the *state*.

Nevertheless, the theory shows both that it is possible, and how it is possible, to address this issue gradually over time by redistributing and harmonizing the allocation of existing resources between indirect and direct services in a more equitable and effective manner. This is not to discount the argument that there may very well be a revenue problem for

⁶ It is clear that there is a collaborative research effort required to test this theory, consisting of persons who firstly are open to this theory and its implications for social policy, and are knowledgeable and competent in social work practice and public administration, as well as economic and financial analysis.

⁷ Province of New Brunswick Budget, *Main Estimates*, 2011-2012.

⁸ It is recognized that the overhead or indirect service function is also spread throughout the social service system and that it is not limited to government offices. Our point is that there is a serious imbalance in its distribution and in the benefits of its distribution and that there is a serious undermining of the normative relationship of this function's subordination to the direct service function.

government that affects all public services. But it does circumvent the standard position that nothing can be done until there is a significant increase in new resources or tax monies obtained from the economic market, and directed into the social service system.