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—— VIEWPOINT ——

Can a Christian Be an Economist?

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Do nothing from selfish ambition or conceit, but in humility regard others as better than yourselves. Let each of you look not to your own interests, but to the interests of others. Philippians 2: 3–4

The answer, of course, is yes; but not without some difficulty once one becomes aware of the moral premises that permeate economic theory. But that is getting ahead of the story.

After finishing my B.A. in accounting and philosophy—the former to earn a living since I was married with two children when I graduated and the latter because I loved it—I worked in public accounting long enough to get my C.P.A. and then began to teach at a local junior college while continuing to practice public accounting part-time. During this time we became very involved in our local parish, particularly in its social ministry. It was then that our Christian faith became revitalized as we came to realize through study of the Bible and Catholic Social Thought that we all are called to do God's work in this world. To love God is to love neighbor.

I. The Biblical Tradition

The strong emphasis in the Old Testament prophets calling for social justice and condemning excessive and irresponsible wealth changed my way of seeing the world. Central to the biblical view is that justice in a community is most directly tested by its treatment of the powerless in society, most often described as the widow, the orphan, the poor and the stranger (non-Israelite) in the land. The prophets continually call the king and the people back to commitment to justice for the powerless. They direct scathing attacks at the rich and powerful who "sell the just man for silver, and the poor man for a pair of sandals. They trample the heads of the weak into the dust of the earth, and force the lowly out of the way" (Amos 2:6–7). Isaiah pronounces God's judgment on those "who have devoured

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the vineyard; the loot wrested from the poor is in your houses" (3:14). Jeremiah condemns the man "who builds his house on wrong, his terraces on injustice." He praises King Josiah because "he dispensed justice to the weak and the poor." Jeremiah then adds the startling statement: "Is this not true knowledge of me? says the Lord" (22:16). He then adds, "your eyes and heart are set on nothing except on your own gain" (22:17). Thus, doing of justice is equated with knowledge of the Lord. The practice of justice is constitutive of true belief. And the pursuit of self-interest is seen as a stumbling block to knowing and serving God.

If Jesus is, as Christians claim, Lord and the son of God, then he is Lord of every aspect of our lives, including the economic one, and his teaching and example must have some relevance to economics as well. In fact, Jesus followed in the prophetic tradition, taking the side of those who are powerless or on the margin of his society such as the tax collectors (Luke 15:12), the widow (Luke 7:11–17; Mark 12:41–44), the Samaritan (Luke 17:11–19), the sinful woman (Luke 7:36–50), and children (Mark 10:13–16). Jesus' description of the final judgment in Matthew 25 (31–46) still haunts me with its powerful message of what it means to be a Christian:

> When the Son of Man comes in his glory, and all the angels with him, he will sit upon his glorious throne, and all the nations will be assembled before him. And he will separate them one from another, as a shepherd separates the sheep from the goats. He will place the sheep on his right and the goats on his left. Then the king will say to those on his right, "Come, you who are blessed by my Father. Inherit the kingdom prepared for you from the foundation of the world. For I was hungry and you gave me food, I was thirsty and you gave me drink, a stranger and you welcomed me, naked and you clothed me, ill and you cared for me, in prison and you visited me." Then the righteous will answer him and say, "Lord, when did we see you hungry and feed you, or thirsty and give you drink? When did we see you a stranger and welcome you, or naked and clothe you? When did we see you ill or in prison, and visit you?" And the king will say to them in reply, "Amen, I say to you, whatever you did for one of these least brothers of mine, you did for me." Then he will say to those on his left, "Depart from me, you accursed, into the eternal fire prepared for the devil and his angels. For I was hungry and you gave me no food, I was thirsty and you gave me no drink, a stranger and you gave me no welcome, naked and you gave me no clothing, ill and in prison, and you did not care for me." Then they will answer and say, "Lord, when did we see you hungry or thirsty or a stranger or naked or ill or in prison, and not minister to your needs?" He will answer them, "Amen, I say to you, what

you did not do for one of these least ones, you did not do for me." And these will go off to eternal punishment, but the righteous to eternal life.

The concern with justice was reinforced by our participation in the parish based Christian Family Movement (CFM) which utilized the observe-judge-act methodology to bring Christian values to bear upon the problems of the social, economic, and political worlds in which we live. Thus, while still innocent of economic theory, I began to study the specifically Christian approach to the economy embodied in Catholic Social Thought (CST) and tried to put those teachings into practice through local action such as lobbying the state legislature for migrant labor laws, sponsoring immigration for Dutch-Indonesians, and working in soup kitchens.

II. The Catholic Social Thought Tradition

Let me sketch-in the tradition of CST that I learned. It is rooted in a commitment to certain fundamental values—the right to human dignity, the need for human freedom and participation, the importance of community, and the nature of the common good. These values are drawn from the belief that each person is called to be a co-creator with God, participating in the redemption of the world and the furthering of the Kingdom. This requires social and human development where the religious and temporal aspects of life are not separated and opposed to each other.

As a result of these fundamental values two principles permeate CST. The first is a special concern for the poor and powerless which leads to a criticism of political and economic structures that oppress them. The second is a concern for certain human rights against the collectivist tendencies of the state and the neglect of the free market.

Ever since *Rerum Novarum* in 1891, CST has taught that both state socialism and free market capitalism violate these principles. State socialism denies the right of private property, excites the envy of the poor against the rich leading to class struggle instead of cooperation, and violates the proper order of society by the state usurping the role of individuals and social groups [*RN*, 7–8;[1] *Centesimus Annus*, 13–14]. Free market capitalism denies the concept of the common good and the "social and public character of the right of property" [*Quadragesimo Anno*, 46], including the principle of the universal destination of the earth's goods [*RN,* 14; *CA*, 6]; and violates human dignity by treating labor merely as a commodity to be bought and sold in the marketplace [*RN*, 31; *QA*, 83; *CA*, 33–35]. Pope John Paul II summarizes the thrust of CST when he says: "The individual today is often suffocated between two poles represented by the State and the marketplace. At times it seems as though he exists only as a producer and consumer of goods, or as an object of State administration. People lose sight of the fact that life in society has neither the market nor the State as its final purpose, since life itself has a unique value which the State and the market must serve" [*CA*, 49].

The concept of the common good in CST emphasizes both the dignity of the human person and the essentially social nature of that dignity. Both civil and political liberties on the one hand and social and economic needs on the other are essential components of the common good. The common good is not the aggregate of the welfare of all individuals. Rather it is a set of social conditions necessary for the realization of human dignity which transcend the arena of private exchange and contract. Such conditions or goods are essentially relational. To exist they must exist as shared. In short, individual persons have rights to those things necessary to realize their dignity as human beings. Catholic Social Thought argues further that in pursuing the common good special concern must be given to the economy's impact on the poor and powerless because they are particularly vulnerable and needy [*CA*, 11].

Pope John XXIII, in his encyclical *Pacem in Terris*, set out in detail a full range of human rights that can only be realized and protected in solidarity with others. These rights include the civil and political rights to freedom of speech, worship, and assembly. He also includes a number of economic rights concerning human welfare. First among these are the rights to life, food, clothing, shelter, rest, medical care, and basic education. In order to ensure these rights everyone has the right to earn a living. Everyone also has a right to security in the event of illness, unemployment, or old age. The right to participate in the community requires the right of employment, as well as the right to healthful working conditions, wages, and other benefits sufficient to support families at a level in keeping with human dignity [*PT*, 8–27; *CA*, 8, 15].

CST repudiates the position that the level of unemployment, the degree of poverty, the quantity of environmental destruction, and other such outcomes should be left to the dictates of the market. Emphasis on the common good means that the community has an obligation to ensure the right of employment to all persons [*CA*, 15], to help the disadvantaged overcome their poverty [*CA*, 19, 40], and to safeguard the environment [*CA*, 37].

Although CST defends the right to private ownership of productive property [*RN*, 10, 15, 36], the common good sometimes demands that this right be limited by the community through state regulation, taxation, and even, under exceptional circumstances, public ownership [*Popularum Progressio*, 23]. The attainment and safeguarding of human rights sometimes requires the overriding of market outcomes. Therefore, CST insists that "government has a moral function: protecting human rights and securing basic justice for all members of the commonwealth" [*PT*, 60–62]. Pope John Paul II says society and the state have the duty of "defending the basic rights of workers," defending those "collective and qualitative needs which cannot be satisfied by market mechanisms," and "overseeing and directing the exercise of human rights in the economic sector" [*CA*, 40, 48].

Catholic thought sees society as made up of a dense network of relations among individuals, families, churches, neighborhood associations, business firms, labor unions, and different levels of government. Thus, every level of society has a role to play in ensuring basic human rights and the common good. In CST this is expressed as the "principle of subsidiarity:"

> Just as it is gravely wrong to take from individuals what they can accomplish by their own initiative and industry and give it to the community, so also it is an injustice and at the same time a grave evil and disturbance of right order to assign to a greater and higher association what lesser and subordinate organizations can do. For every social activity ought of its very nature to furnish help (*subsidium*) to the members of the body social, and never destroy and absorb them [*QA*, 79; also *CA*, 15].

This principle provides for a pluralism of social actors. Each, from the individual person to the federal government, has obligations. Higher levels should not usurp the authority of lower levels except when necessary. However, the principle works both ways. When individuals, families, or local communities are unable to solve problems that undermine the common good, the state governments are obligated to intervene, and if their resources and abilities are inadequate, then the federal government assumes the responsibility. This principle also extends into the international economy. As Pope John Paul II says, "this increasing internationalization of the economy ought to be accompanied by effective international agencies which will oversee and direct the economy to the common good, something that an individual State, even if it were the most powerful on earth, would not be in a position to do" [*CA*, 58].

The right to private property and the principle of subsidiarity limit the role of the state while the principle of solidarity [*CA*, 15] requires that society and the state intervene in markets to protect human rights, particularly of the poorest. The thrust of CST, therefore, has been to repudiate both state socialism and free market capitalism. What economic system does it endorse? Explicitly, none. As Pope John Paul II says: "The Church has no models to present" [*CA*, 43] of the best economic system; that is for history to decide in each individual case. However, implied in CST is a preference for a regulated market economy that protects the poor, defends human rights, allows all to participate in social groups such as trade unions, and controls market failures such as environmental pollution. The degree of regulation is not a matter of principle but rather a case of prudential judgment in particular cases.

III. Economic Theory: From the Golden Age to a Post-Modern World

With this theological and philosophical background I was drawn into graduate work in economics by my desire to attain a better understanding of the causes of poverty and how to overcome it. The national chaplain of CFM, Fr. Louie Putz, urged me to get a masters degree. As a result I went back to school and got a M.S. degree in social science and afterwards went, with my wife and four children, to teach accounting, mathematics, and economics at the Catholic University in Ponce, Puerto Rico. It was the university vice-chancellor, Msgr. Ivan Illich, who invited me to teach in Puerto Rico. During our stay he became my mentor and convinced me that I needed to get a Ph.D. in economics before anyone would listen to what I had to say. I accepted an assistantship at the University of Maryland with the intention of concentrating on the problems of development in Third World countries.

The early 1960s, when I was in graduate school, appeared to be a propitious time for a Christian to be studying economics. Development economics was born after World War II with the acceptance of the inevitability of political, social, and economic change. The problem of the poor countries of Eastern Europe was the genesis of much of the initial work, and then the success in rebuilding Europe and Japan emboldened development economists to extend their work to the rest of the world. Development thought incorporated an optimism that change could be for the better and that conscious reflection on and control over change, often through national governments and international organizations, could harness change and bring about development. Thus the 1950s and 1960s were marked by optimism that world poverty could be conquered by economic growth.

In terms of developed countries such as the United States, Paul Samuelson's neo-classical synthesis version of Keynesian macroeconomic management was in high gear and it did appear that the curse of unemployment with its attendant poverty would be overcome. But the history of the next two decades belied that complacency.

In the underdeveloped countries the 1970s saw the hope that poverty would be conquered quickly dashed by growing unemployment and inequality and the intractability of absolute poverty in the Third World. However, the 1970s also witnessed the birth of a new optimism to replace the old. The pursuit of "growth with equity" or a strategy of targeting "basic human needs" would succeed where economic growth failed.

The 1980s ushered in a period of greater caution. It became widely recognized that world poverty would not be eliminated with simple economic panaceas. Resource shortages (particularly of energy), environmental destruction, rising protectionism in the industrial world, militarism in the Third World, the international arms race, the structure of the world economy all made the design of development strategies a complex problem in political economy rather than a simple technical economic issue.

Economists became more aware of the problems created by fast economic growth and slow social change, as well as the difficulty of defining development correctly. Development economics had to learn that "all good things do not go together," that rapid growth and economic development may be accompanied by severe social and political problems such as the loss of deeply felt cultural values, the breakup of community, and the emergence of authoritarian governments.

It is now the first decade of the twenty first century, a time when the old verities are collapsing. The cold war has ended, the Eastern European countries are moving from centrally planned economies of the Second World to market-oriented underdeveloped countries. Regional and ethnic conflicts have moved to center stage in the international political arena with the most notable examples being the wars in Iraq and Afghanistan, the internal conflicts in the old Yugoslavia, in Somalia, Rwanda, and in the republics of the former Soviet Union. The prospects for development may fade even further in Africa, Asia, and Latin America if the industrial countries' development assistance becomes focused on aiding the Eastern European countries and the areas torn by war.

Despite all this much has been accomplished since 1945. There has been rapid growth of GDP throughout the world, infant mortality has decreased dramatically, and life expectancy has increased rapidly; access to education has been extended far beyond what would have been imaginable in 1945.

In the United States, after a golden age of economic prosperity, 1960 to 1973, guided by Washington economic policymakers, the American economy faced difficult times. Between 1974 and 1980 the New Deal-Keynesian economic consensus came apart at the seams. The simultaneous appearance of high unemployment and double-digit inflation—the clearest manifestation of an economic crisis—belied the ability of prevailing economic policy to confront these new challenges.

In 1980 Ronald Reagan represented an alternative social consensus—a return to less government and freer markets. In 1988 the American electorate decided to continue the same course for another four years with George Bush. Yet, when the 12 year Reagan-Bush record is examined closely, only in the case of inflation had the underlying problem been confronted. Unemployment remained high, productivity did not dramatically increase, and a host of other problems—huge budget and trade deficits, increased poverty, and in general a prosperity haunted by structural distortions in the economy and an underclass all too often hungry and homeless—grew despite blithe denials.

These changes generated increasing income inequality, and labor's share of personal income fell by three percentage points between 1980 and 1990 while the share of payments to owners of assets increased from 22.7 percent to 26.1 percent, a dramatic change in such a short period of time. In addition, these figures hide the increased inequalities in wage and salary incomes (wage rollbacks for production workers and large bonuses for managers). When changes in family income between 1977 and 1989 are looked at the results are even more dramatic—the top one percent of families captured 44–70 percent, depending on definitions, of the total increase, resulting in their share of total after tax income jumping from 7 to 12 percent. In contrast the bottom 40 percent of families actually lost income, both relatively and absolutely.

Changes in the employment structure of the economy created a situation where the poor became more numerous and poorer, and where getting a job was no longer a way out of poverty—31.5 percent of all jobs in 1987 paid less than that necessary to support a family of four above the poverty line. The number of persons living below the official poverty line increased from 26.1 million in 1979 to 32.5 million in 1987, an increase from 11.7 percent to 13.5 percent of the population. The rate was not higher because most poor households have multiple wage earners. This was the basis for talk about the "New Poor" and the "Underclass."

The 1992 election of Bill Clinton changed little. Recovery from the Bush recession reduced unemployment and the budget deficit but most of the other problems remained. Under Clinton some steps were taken to reverse the Reagan policies, e.g. increasing taxes on the wealthy in

1993. This resulted in better macroeconomic performance and somewhat greater responsiveness to the ethical dimension of economic policy. The 1996 reform of the welfare laws may or may not have helped the poor. It removed many families from welfare and sent some to paying jobs but it is not clear what the final result will be. Certainly there has been an increase in poverty among the very poorest families.

The George W. Bush administration has pushed the economy further along the Reagan path. An examination of the data on the Bush administration's performance regarding income distribution and poverty documents a deteriorating performance in these areas. Poverty rates have risen from 11.3 percent in 2000 to 12.7 percent in 2004, 37.0 million persons compared with 31.6 million in 2000. They remained stable in 2005. There has been a shift in the shares of income groups among quintiles, with a continual decline in the lowest and increases in the highest income groups since 1970. For example, the functional distribution of income has shifted heavily in favor of profits and away from wages. After 1980 the share of wages declined by close to 4 percent by 2004, though it rose in 2005. The share of profits has increased by 5.6 percentage points, and proprietors' income has increased by two percentage points. Between 1980 and 2004, real wages in manufacturing decreased one percent, while during the same period the real income of the richest one percent increased 135 percent. These are large shifts. As *The New York Times* reported on August 28, 2006, "wages and salaries now make up the lowest share of the nation's gross domestic product since the government began recording data in 1947, while corporate profits have climbed to their highest share since the 1960s."[2]

IV. Growing Disillusionment

The result of these political changes has been the growth of an economic philosophy dominated by an ideology fixated on competition and success as the measure of a person's worth. Many will deny that this describes the essence of American economic philosophy. And yet each day we are reminded of its accuracy: the down-sizing of corporations where the managers and stock holders get richer while the employees get fired, the exaltation of sports stars, the attitude of Congress and the business community toward welfare legislation, the whole philosophy of success which measures the value of people by their productivity.

The promotion of success and self-interest became epitomized in the 1980s by Wall Street stock brokers and merger specialists and the goal of newly-minted Harvard MBAs to make $1 million per year before their thirtieth birthday.

Government social programs established during the past 60 years have been attacked because they supposedly reduce incentives and thus productivity. Free up the economy and all will be well. Reduce welfare, minimum wages, and unemployment benefits so that the poor will have greater incentives to work. Lower taxes and remove regulations on business so that the resulting higher profits will encourage corporations and wealthy individuals to save and invest. Increase productivity and growth in GDP will result. Eventually, the benefits will trickle down so that even those on the bottom will be better off than before.

However this is more ideology than fact. We have been pursuing this goal since 1980. We have made the economy our master instead of using it as our servant. We close industrial plants, create unemployment, devastate whole communities, and call it an efficient reallocation of resources. We, who have prospered from free market policies, caution that nothing can be done because natural economic forces are at work. The poor, the unemployed and the underemployed bear the burden of this free market myopia.

The philosophy and set of values embodied in a society's institutions and policies help shape the character of the people in that society. It is most revealing to examine the character of the people in our society, such as big-time athletes, CEOs, and Wall Street brokers, who are considered successful. R. H. Tawney's[3] thoughts are illuminating:

> The types which it [the industrial system] carries to power tend to be not unlike those produced by war. They must have energy, self-control, foresight, a willingness to take risks. They must be undisturbed by pity for the weak, by doubts as to the value of the immediate ends at which they aim, by reverence for the finer and more delicate human qualities and achievements, by humility or consciousness of personal deficiencies. They are essentially a conquering race. Like other conquerors they leave a trail of wreckage, consisting of the weak, the exceptionally scrupulous and honourable, the unconventional, the merely gentle and kindly who 'dare not have the lives of others on their conscience' (1972).

If we believe that the natural order of society is one in which the strong win their way to power over the ruin of the weak, we will find nothing fundamentally wrong with business as usual. If we object then we are driven to override market outcomes when they yield results that we regard as morally unacceptable. Then the hard work begins—how do you intervene in the market without creating more harm than good? This should be the issue we debate in the coming years of the 21st century.

From 1964 to 1975 I was on the faculty at The American University. Since 1975 I have been at the University of Notre Dame. During this time I became ever more disenchanted with traditional economic theory as the vehicle to develop adequate policies to overcome poverty in the Third World or in the United States. I found myself unable to accept the values embedded in economic theory, particularly the elevation of self-interest because it supposedly leads to efficiency, the neglect of income distribution, and the attempts to export these values into studies of the family, the role of the state and so on. But Christian thought and biblical tradition make self-interest a central aspect of *fallen* human nature which as Christian believers we are bound to strive to counter with prayer, good works, and the cultivation of virtue. As a result I started researching and writing on the philosophy of science as it applied to economics.

This work has led me to two important conclusions. First is the conviction that economic theory is not value free as is so often claimed but, rather, it presupposes a set of value judgments upon which economic analysis is erected. Second is the realization that the economy itself requires that the self-interest of economic actors be morally constrained. My current research attempts to explore the role that ethics actually plays and should play in economic analysis and policy.

V. Economics and Ethics

Economics and ethics are interrelated because both economists (theorists and policy advisers) and economic actors (sellers, consumers, workers, investors) hold ethical values that help shape their behavior. In the first case economists must try to understand how their own values affect both economic theory and policy. In the second case this means economic analysis must broaden its conception of human behavior. Ethics enters economics in a third way—since economic policies and institutions impact people in differential ways, questions of efficiency cannot be separated from the ethical issues involved. But that is a topic for another time.

Values and Economists

Economists construct theory from a particular world view, resulting in basic concepts, such as efficiency, being value-laden. A world view greatly influences the scientific paradigm out of which one works; value judgments are closely associated with the world view; theories must remain coherent with the world view; facts themselves are theory-laden; therefore, the whole scientific venture is permeated by value judgments from the start. This world view shapes the interests of the scientist and determines the questions asked, the problems considered important, the answers deemed acceptable, the axioms of the theory, the choice of "relevant facts," the hypotheses proposed to account for such facts, the criteria used to assess the fruitfulness of competing theories, the language in which results are to be formulated, and so on.

Let me illustrate the world view argument with neo-classical economics (see Wilber and Hoksbergen 1986). The world view of mainstream neo-classical economics is closely associated with the notion of the good embedded in its particular scientific paradigm. It is founded on a world view made up of the following propositions:

1. Human nature is such that humans are (a) self-interested and (b) rational. That is, they know their own interest and choose from among a variety of means in order to maximize that interest.
2. The purpose of human life is for individuals to pursue happiness as they themselves define it. Therefore, it is essential that they be left free to do so.
3. The ideal social world is a gathering of free individuals who compete with each other under conditions of scarcity to achieve self-interested ends. As in the natural world with physical entities, in the social world too there are forces at work which move economic agents toward equilibrium positions.

Neo-classical economists either accept the preceding empirically unverifiable and unfalsifiable statements or, barring overt acceptance, conduct scientific inquiry with methods based thereon. To state it simply, neo-classical economists believe that humans are rational maximizers of their own self-interest and that humans act in a rational world characterized by forces which move things toward equilibrium. The belief in self-interested rationality survives contrary evidence. Experimental studies by psychologists and economists indicate that people are concerned about cooperating with others and with being fair, not just preoccupied with their own self-interest (see Frank *et al*. 1993; Rabin 2004).

It seems fairly clear that judgments of value, of a particular notion of the good, are directly implied by propositions one and two of this world view. If the purpose of life is that individuals pursue happiness, and if they do so self-interestedly, then it certainly would be good for individuals to receive what they want. Here is the basic notion of the good permeating all neo-classical economics: individuals should be free to get as much as possible of what they want. There are two basic judgments required to translate this concept of the good into economic theory, such as cost-benefit analysis. The first of these is that individual preferences are what count. The second is a value judgment on distributional equity.

To conclude, the paradigm or research program of any scientific community is circumscribed by boundaries laid out in a world view which, while not perhaps individually subjective, is nevertheless empirically untestable, or metaphysical as Boland and others would say (see Boland 1981; McCloskey 1985). How then do value judgments about the good, the just, and the right enter into scientific analysis? Such value judgments are themselves entailed by the same world view which gives rise to theoretical and factual analysis. "What is" and "what ought to be" are thus inextricably commingled in the data, the facts, the theories, the descriptions, the explanations, the prescriptions, and so on. All are permeated by the *a priori* world view.

Mainstream economics' rational actor theory is more than an empirical theory of behavior. This is perhaps most clearly evident when economists use the concept of Pareto optimality as a tool for gauging the relative efficiency of alternative economic arrangements, and, therefore, the desirability of policies. Since the definition of welfare in this case is preference satisfaction, the utility function becomes a normative benchmark. Another example is perhaps more crude in its use of the preference-satisfaction standard but equally important—cost-benefit analysis. In this practice, the merit of projects or policies is determined by adding up their costs and benefits. The benefits are usually measured in terms of the willingness of the affected parties to pay for them; with willingness-to-pay the normatively relevant piece of data because it reflects preferences. Thus, when applying either the Pareto criterion or cost-benefit analysis, economists rely on the notion that welfare amounts to the satisfaction of observed individual preferences.

A related problem arises when we deal with the problem of imperfectly informed preferences. It has been empirically documented that in the real world, preferences are affected by all kinds of irrational influences. How, then can one justify relying on those preferences to guide policy? This problem leads to efforts by some theorists to save the preference-sovereignty criterion by using preferences that are "cleansed" of malign influences such as imperfect information. But this only introduces new problems. For example, people often value things or not—such as a surprise birthday present—because of the very uncertainty surrounding them. In such situations, the "cleansing" process may not just cleanse but also distort preferences. Thus, the supporter of preference sovereignty has a dilemma. Either he or she must accept "bad" preferences or tolerate an alien version of preferences, which may lack the moral appeal of more authentic, but ill-informed, ones. The preference sovereignty standard thus fails even when modified to take account of imperfect information.

Etzioni (1987) suggests a way in which deontological considerations might be used to augment neo-classical economics. The essence of the deontological, or Kantian, approach, he says, is that while the utilitarian views the person as a unified bundle of preferences, the Kantian sees the self as bifurcated. Each person has a set of desires as well as a separate aspect of the self that judges those preferences in light of moral considerations. The ultimate choices of the individual are the product of both aspects of the self. This notion, as Etzioni points out, is consistent with the work of those economists such as Amartya Sen who have introduced "meta-preferences"—a secondary set of preferences over the domain of all possible preferences. In addition to the fact that preferences have this dual nature, Etzioni points out that they respond to experience, and thus are endogenous in an important way.

Etzioni argues for the incorporation of the moral aspects of the individual into economic theory and he argues against seeing the moral aspects of the world as a limited and distinct area in which special rules apply. Morality interpenetrates all of economic life; its implications are sweeping and do not apply only to certain areas. For example, in considering work life, the moral value of work, and not just preferences, Etzioni says, must be taken into account. Moreover, moral behavior under girds all of the economy, which would quickly disintegrate if large numbers of people attempted to cheat one another or failed to honor their contracts. Thus, moral considerations demand a radical rethinking of all of economics.

Some mainstream neo-classical economists have recognized the importance of these issues. Those doing work in imperfect information theory, experimental economics, and game theory have demonstrated that the efficient operation of markets requires something beyond calculated self-interest. Economic actors must internalize rules of conduct and self-supervise their behavior. A lack of trust in the honesty and truthfulness of others, increases transaction costs reducing efficiency. For example, distrust between workers and owners can lead to shirking on the part of workers and, therefore, the need to hire more supervisors by employers. This is inefficient. These economic theorists have come to realize that in a world of interdependence and imperfect information, rational self-interest can lead to socially irrational results. Traditionally, economic theory assumed that economic actors had perfect information. However, the more realistic assumption that each economic actor has less than perfect knowledge of the other's likely behavior, gives rise to strategic behavior, or what game theorists call "moral hazards," resulting in increased interdependence. This work is growing in importance but still struggles to find a central place in the teaching of economics which still attempts to provide a rigorous demonstration that rational individuals, left free to engage in voluntary exchange, will construct competitive market institutions that yield optimal levels of individual freedom and material welfare. In the absence of market failures this economic theory of individual rationality indicates that intervention by public authorities or the forming of collective groups such as trade unions lower efficiency and thus the level of output.

Hoksbergen and my work shows there is no alternative to working from a world view, whether it be economic individualism, Christian communalism, or whatever. Making explicit the values embodied in that world view will help keep economics more honest and useful. Ethics is a basic component of economic analysis and needs to be recognized as such.

Scripture will be a major source of ethical guidelines for any attempt at an economic theory informed by Christian belief. But the relationship of Scripture to ethics is a tremendously complex one. The Bible originated in a completely different culture and historical setting than our own. Economies in the ancient world were largely agricultural, rather than industrial; religion and society were much more closely linked; and a communal anthropology prevailed, in contrast to modern individualism. It is questionable to assert that specific Scriptural rules can be transported directly into the modern world. God's will was mediated to the Israelites in their concrete historical situation, and can only be mediated to us in our historical situation. We should certainly attempt to discern basic ethical principles in Scripture and apply them to our economic analysis, but this is different from finding exact blueprints. Catholic Social Thought is such an attempt to use Scripture and Tradition to address the problems of the modern economy.

Values and Economic Agents

Economic theory, with its focus on self-interest, obscures the fact that preferences are formed not only by material self-interest but also by ethical values, and that market economies require that ethical behavior for efficient functioning.

Economic theory focuses on people as hedonists who want to maximize pleasure and minimize pain.[4] It assumes that pleasure comes primarily from the consumption of goods and services; and that pain comes primarily from work and from parting with your income. Thus, given resource constraints, the goal of the economy should be to maximize the production of goods and services. In short, more is better.

In modern industrial economies such as ours, it is perfectly rational for people to accept a philosophy of consumerism. People have little opportunity to choose meaningful work because the nature of jobs is determined by competitive pressures. The demand for labor mobility disrupts a satisfying sense of community. And the enjoyment of nature is attenuated by urbanization and the degradation of nature resulting from industrial and consumption practices. Thus, the only thing left under the individual's control is consumption. And it is true that consumption can substitute, however inadequately, for the loss of meaningful work, community, and a decent environment. With enough income people can buy bottled water, place their children in private schools, buy a mountain cabin, and obtain the education necessary to get a more interesting job.

The Catholic tradition dissents from this materialist view of human welfare. In his 1968 encyclical, *Populorum Progressio*, Pope Paul VI wrote:

> Increased possession is not the ultimate goal of nations or of individuals. All growth is ambivalent. It is essential if man is to develop as a man, but in a way it imprisons man if he considers it the supreme good, and it restricts his vision. Then we see hearts harden and minds close, and men no longer gather together in friendship but out of self-interest, which soon leads to oppositions and disunity. The exclusive pursuit of possessions thus becomes an obstacle to individual fulfillment and to man's true greatness. Both for nations and for individual men, avarice is the most evident form of moral underdevelopment [19].

On the twentieth anniversary (1987) of *PP*, Pope John Paul II wrote in *Sollicitudo Rei Socialis*: "All of us experience first hand the sad effects of this blind submission to pure consumerism: in the first place a crass materialism, and at the same time a radical dissatisfaction because one quickly learns...that the more one possesses the more one wants, while deeper aspirations remain unsatisfied and perhaps even stifled" [28]. In *CA*—marking the one hundredth anniversary of *RN*—Pope John Paul II writes: "It is not wrong to want to live better; what is wrong is a style of life which is presumed to be better when it is directed toward 'having' rather than 'being,' and which wants to have more, not in order to be more but in order to spend life in enjoyment as an end in itself" [36].

VI. Consumption and Human Welfare: An Alternative

Many working within the Roman Catholic tradition would argue that we must broaden our view of human welfare from that of a simple consumer of goods and services with consumer sovereignty as the goal. Instead, drawing upon Scripture, Tradition, and cross-cultural studies which have attempted to find absolute needs or needs that are expressed in a variety of societies, three components of human welfare can be specified for an economy (see the various documents of CST, particularly *Economic Justice for All*; Goulet 1971; Wilber and Jameson 1990; and Wilber 1998, 2004).

The first is what Denis Goulet calls "life-sustenance," which corresponds generally to physiological needs or basic material goods. People need the basic goods that are necessary for life—adequate food, water, housing, clothing, education, and health care—and an economy is successful if it can provide them.

A second component of human welfare is esteem and fellowship. An economy should provide a sense of worth, of dignity to its citizens. One's goods can be a measure of societal esteem, but surely there are other important elements. For Christians, Jesus' life and ministry were an apparent failure. His vindication came through resurrection after suffering crucifixion, not by God's intervening to prevent it, and by the continuing fellowship of believers that have praised His Name down through the centuries. Those who confess the Lordship of one executed as a political criminal can never simplistically identify success with virtue.

The institutions in which citizens work should support them physically and give them a sense of belonging and of contributing to an important undertaking. Society should have clubs, churches, and other entities which support the individual. If the family is the basic social and economic unit, as is the case in the United States, the economy should provide support and encourage in families a sense of self-esteem that can help sustain them. Another term for this is fellowship; the economy should promote right relations among its participants, and to the extent it can, should keep life from being "nasty and brutish," while providing basic material goods to lengthen it.

The third component of human welfare is freedom. However freedom is a difficult goal to specify clearly. It obviously does not mean that all individuals may do whatever they wish, for that would be anarchy and the death of community. At its weakest, an increase in freedom means that the range of options open to the individual or the group has increased, that there are more choices available. This has its physical side in choice of goods, but it can also operate in other spheres such as the political or religious.

There are three component parts to the goal of freedom. The first, and the one which is usually at the center of much economic theorizing in the United States, is the provision of consumer sovereignty. Individuals should be able to choose the goods that they wish to consume.

The second part is worker sovereignty. People must have a choice of jobs, jobs they find meaningful and that enhance their human capacities (see *Laborem Exercens*). Somehow workers must be given a voice in their workplace.

Third, a society must provide citizen sovereignty, a mechanism to aggregate peoples' preferences for community. What kind of community do people want? What kind of environment do they want? The concept of citizen sovereignty implies that a way to express preferences and to control communities is provided to the citizen. A number of mechanisms may be found which satisfy this requirement, in addition to the democratic voting procedures used in the United States. One way of enhancing citizen sovereignty could be through strengthening local groups for citizen participation in decision making, e.g., parent-teacher organizations, zoning boards, and citizen review boards of police departments and other public agencies. Or perhaps local residents might participate in the operation of local industries in their areas, by electing representatives to firms' boards of directors to minimize the negative aspects of industrial production such as noise and pollution.

In the light of economists' claims about the importance of incentives for the operation of markets, is the treatment of human welfare in Catholic Social Thought viable? It could be argued that this broadening of the concept of human welfare may be impossible because of (a) the way markets create a bifurcation of people as consumers/workers, coupled with the competitive pressures that force business firms to become ever more efficient; and (b) the consumerism which is rooted in human greed *and* the workings of the business system.

Let me take the provision of meaningful work as an example. Because of competition one firm cannot improve working conditions, raise wages, or democratize the workplace if the result is an increase in production costs. (The easy case is where improved working conditions are also more efficient and thus both workers and employers have an incentive to make the changes.) Competition from other firms will keep the costs from being passed on in higher prices and, thus, profits will decline. The bifurcation of people into consumers/workers means that what they prefer as consumers—lower prices—makes what they prefer as workers—better working conditions and wages, more meaningful work—less obtainable. Reliance on the market as the primary decision making mechanism bifurcates the decision into separate areas. What people want as workers will not be ratified by those same people as consumers. Since competition is now worldwide, even a whole country faces difficulties in mandating workplace improvements that raise costs.

The problem is reinforced, first by the fact that millions of Americans live in poverty and consume too little not too much, and second by both human greed and the constant effort of business to promote consumption as the ultimate end of life. This creates constant pressure to reduce prices by reducing labor costs, undercutting attempts to improve the quality of work life.

Why do we accept this? The process, usually implicit, of teaching people that true happiness comes from consumption permeates our entire culture and begins at a very early age. Gintis and Weaver (1974) provide a vivid example from an old Sears Roebuck Christmas catalogue.

> Sears advertised...a new doll named Shopping Sheryl. Sheryl comes equipped with a supermarket which has a rotating checkout counter, a ringing cash register, a motorized check-out stand, shelves, cart, and groceries. Sheryl is a vinyl doll which picks things up with her magnetized right hand and grasps with her left hand. We can visualize Sheryl in her supermarket, picking and grasping, picking and grasping.
>
> This is really the final result of the evolutionary process. People have emerged from the muck and the ooze, overcome the hardships imposed by nature, built dwellings, invented agriculture, etc.—so that our children can have Shopping Sheryl and learn early in life that the true purpose of life is consumption (p. 18).

VII. What Needs to be Done?

Can anything be done to reduce the emphasis on consumption and to increase the possibilities for meaningful work and the restoration of community? I am not optimistic but as a Christian and as an economist I would focus on two possibilities—the inculcation of more appropriate moral values and the judicious use of financial incentives (the latter which I will ignore in this paper).

We need to develop habits of morally constrained behavior, reinforced by cultural practices, so that short-run rewards become less important. We need values that transcend the narrow self-interest of the economic model as the guide for individual behavior. Is it possible to rebuild a moral consensus wherein we re-learn habits of morally constrained behavior? Yes, this is a major point of CST, but economists must re-think their view of people as simply self-interested maximizers. They have made a major mistake in treating love, benevolence, and particularly public spirit as scarce resources that must be economized lest they be depleted. This is a faulty analogy because, unlike material factors of production, the supply of love, benevolence, and public spirit is not fixed or limited. As Hirschman (1986) says: "first of all, these are resources whose supply may well increase rather than decrease through use; second, these resources do not remain intact if they stay unused" (p. 155). These moral resources respond positively to practice, in a learning-by-doing manner, and negatively to non-practice. Obviously there are limits; if overused they become ineffective.

How should government encourage people to behave in socially beneficial ways, say, to donate blood? If people are self-interested maximizers, government can best achieve its ends by providing a proper set of economic incentives for such behavior. But if economics misconceives the way people are motivated, these incentives might fail to work. In fact, there is some evidence that blood donations decline when a system of cash payments is introduced. How could this be?

It is not entirely clear how to account for the decline in contributions, but one possible answer relates to a second, *generative,* role for economic theory. By this is meant its role in generating behavior as opposed to merely predicting or controlling it. Economics can play this role in several possible ways. First, as the article by Frank *et al.* (1993) suggests, economics can become a sort of philosophy of life for those who study it, leading them to behave in economically rational ways.[5] Economists bring certain values to their interpretation of the facts, for example, by imposing a neoclassical template on the world they observe. Frank and his co-authors go a step further. They experimentally demonstrate that economists' values can affect the "real world" itself—and not just economists' interpretations of it. This can happen, for example, when economists "export" values in the classroom by teaching the economic theory of rationality. The authors report several experiments, in one of which they put students in a prisoners' dilemma situation, with actual cash at stake. In a regression model of the resulting data, with the decision to defect as the dependent variable, an economics-major variable was significantly positive; those who had studied economics the most were more likely to take the most self-interested action. If this kind of effect is common, then even clearly self-interested behavior may not constitute an independent verification of the theory of rational self-interest, but instead may be a product of that theory.

Dawes and Thaler (1988) attempt to empirically document and catalog moral behavior as it has been observed in experiments. (Also see Rabin 2004.) They recount evidence that in experimental situations people will contribute money toward a public good, contrary to the predictions of rational actor theory. And, reminiscent of Frank *et al.* (1993) they show that groups who have studied economics contribute much less to the public good than others—an illustration of the generative role of social science. They also show that groups that are allowed to have discussions before they decide how to play have much lower rates of defection, which to them suggests a role for "impure altruism"—obtaining utility from doing the right thing. Finally, people seem to be more inclined to cooperate when they have been given an opportunity to develop a sense of common identity with the beneficiaries of their cooperation.

In addition, economically rational ways of behavior can be taught by exposure to social policies and practices that presuppose economic rationality. For example, even those who initially behave according to social norms about giving blood may come to view blood donation as just another economic transaction, once they see people being paid for their donations. What they once saw as a "priceless" gift, they now see as a $50 gift. Thus, their non-economic motives are undercut by an economic policy based solely on self-interest.

Robert Goodin (1980) describes a "Gresham's Law of Sentiments" that seems to operate when a reward system (such as monetary incentives) is introduced to encourage an activity that individuals already find intrinsically valuable. Citing experiments in which the introduction of money rewards results in a reduction of individuals' volunteering to perform the same task, Goodin argues that, with respect to moral motives and altruistic behavior, we see real evidence of "base motives driving out noble ones" (p. 139). The introduction of material incentives does not, as economists would predict, necessarily complement altruistic or beneficent impulses, but rather may have the contrary effect of contaminating and making profane the very impulses that they were designed to foster. Or to put it differently, they might change the very character—that is, the set of virtues—of social actors.

Jerry Evensky (1993) argues that modern economics has selectively adapted Adam Smith's invisible hand metaphor, focusing on the economically wondrous effects of the butcher and baker trading out of each's own interest and ignoring the prior description of the same deistic hand's propelling the creation of a virtuous society. Smith contains, Evensky argues, a forgotten lesson that "the foundation of success in creating a constructive classical liberal society lies in the individuals' adherence to a common social ethics" (p. 197). Virtue serves as "the fine polish to the wheels of society" while vice is "like the vile rust, which makes them jar and grate upon one another" (Smith, *The Theory of Moral Sentiments*, quoted in Evensky, p. 200). Indeed, Smith sought to distance his thesis from that of Mandeville and the implication that individual greed could be the basis for social good. Smith's deistic universe might not sit well for those of post-enlightenment sensibilities, but his understanding that virtue is a prerequisite for a desirable market society remains an important lesson. As Evensky argues, for Smith "ethics is the hero—not self-interest or greed—for it is ethics that defend the social intercourse from the Hobbesian chaos" (p. 204).

This all suggests that the type of policy recommended will have implications for the type of society that will develop. Inherent in the type of policy suggested is a preference as to the motivational attitudes that are appropriate and should be encouraged. The motivations on which the results are based are also important, that is, how we achieve these results needs to be addressed.

Beliefs and preference structures are important because they are the basis for individual motivation. An understanding of these also gives us a notion as to what are and what will encourage the continuation of certain valued feelings. When economists look to self-interest to solve social problems they are placing a higher value on and promoting their own beliefs about what is proper motivation.

Three conclusions can be derived from these issues. First, economic policies have a direct effect on both market outcomes and individual values. Second, economists should give attention to the effect that policies have upon values. How we achieve results is important. Finally, economists must recognize that the policy impact upon values exerts its own influence on future market activity. Thus, over time the type of values promoted by public action has significance even within the "efficiency" realm of traditional economic analysis.

I do not want to leave the impression that ethically based behavior and self-interest are always mutually exclusive. Proximity to self-interest alone does not defile morality. Moral values are often necessary counterparts in a system based on self-interest. Not only is there a "vast amount of irregular and informal help given in times of need" (Arrow 1972, p. 345); there is also a consistent dependence on moral values upon which market mechanisms rely. Without a basic trust and socialized morality the economy would be much more inefficient.

It is easy to forget one of Adam Smith's key insights as pointed out above by Evensky. It is true Smith claimed that self-interest leads to the common good if there is sufficient competition; but also, and more importantly, he claimed that this is true only if most people in society have internalized a general moral law as a guide for their behavior.

Peter Berger (1976) reminds us that "No society, modern or otherwise, can survive without what Durkheim called a 'collective conscience,' that is without moral values that have general authority" (p. 134). Fred Hirsch (1978) reintroduces the idea of moral law into economic analysis:

> ...truth, trust, acceptance, restraint, obligation—these are among the social virtues grounded in religious belief which...play a central role in the functioning of an individualistic, contractual economy....The point is that conventional, mutual standards of honesty and trust are public goods that are necessary inputs for much of economic output (p. 141).

People are capable of changing their values. In fact a principal objective of publicly proclaimed laws and regulations is to stigmatize certain types of behavior and to reward others, thereby influencing individual values and behavior codes. Aristotle understood this: "Lawgivers make the citizen good by inculcating habits in them, and this is the aim of every lawgiver; if he does not succeed in doing that, his legislation is a failure. It is in this that a good constitution differs from a bad one." While families, churches and schools play the most important role in shaping behavior and inculcating values, public laws have a role to play. For example, while law cannot make people stop holding racist beliefs, it can make them stop engaging in certain types of racist behavior. With time that behavior, say refusing service in a restaurant, becomes de-legitimized in public opinion.

The churches have an important role to play in this regard. Stanley Hauerwas (1981) argues that:

> Christian enthusiasm for the political involvement offered by our secular polity has made us forget the church's more profound political task. In the interest of securing more equitable forms of justice possible in our society, Christians have failed to challenge the moral presuppositions of our polity and society. Nowhere is the effect of this seen more powerfully than in the Christian acquiescence to the liberal assumption that a just polity is possible without the people being just. We simply accepted the assumptions

> that politics is about the distribution of desires, irrespective of the content of those desires, and any consideration of the development of virtuous people as a political issue seems an inexcusable intrusion into our personal liberty (p. xx).

As a specific example, in an opinion piece on inner city poverty in *The Wall Street Journal*, Glenn Loury (1993) argues that policy makers must recognize that creating incentives based solely on the assumption of rational self-interest is doomed to failure. He says liberals, like the sociologist William Julius Wilson, now acknowledge that behavioral problems are fundamental, but they still insist that these problems derive ultimately from a lack of economic opportunities and will abate once "good jobs at good wages" are at hand. Conservatives, such as the political scientist Charles Murray, see the tragic developments in the inner cities as the unintended legacy of a misconceived welfare state. If the government would stop underwriting irresponsible behavior, they argue, poor people would be forced to discover the virtues of self-restraint.

Loury argues these polar positions have something in common. They both implicitly assume that economic factors lie behind the behavioral problems, even behaviors involving sexuality, marriage, childbearing and parenting. Both points of view suggest that behavioral problems can be cured from without, by changing government policy or by getting the incentives right. As he says, "Both smack of a mechanistic determinism, wherein the mysteries of human motivation are susceptible to calculated intervention." He goes on to say:

> Ultimately, such sterile debates over policy fail to engage the fundamental questions of personal morality, of character and values. We do not give public voice to the judgments that it is wrong to abuse drugs, to be sexually promiscuous, to be indolent and without discipline, to be disrespectful of legitimate authority, to be unreliable, untruthful, unfaithful.

Social scientists need to understand that a conception of virtuous living needs to be revived in the public debate over workable policies. More surprising, coming from an economist, is his argument that virtuous living requires a spiritual motivation that is learned in the home and church. "No economist can devise an incentive scheme for eliciting parental involvement in a child's development that is as effective as the motivations of conscience deriving from the parents' understanding that they are God's stewards in the lives of their children." He urges that future policy debates need to bear these behavioral issues in mind. And, of course, to evoke the issue of spirituality is not to deny the relevance of public action.

VIII. Conclusion

There are other differences between economic theory and Christian beliefs. Economic theory abstracts man/woman into a rational calculator of pleasures and pains. Christianity teaches us the stories of the Good Samaritan[6] and the Sermon on the Mount. Meaning and dignity come from being participating members of the faith community. And a faith community is neither created nor maintained by rational self-interest alone. We would do well to heed Boulding's caution of 40 years ago:

> There is a danger...in a predominately commercial society, that people will take economic behavior as the measure to all things and will confine their relationships to those which can be conducted on the level of the commercial abstraction. To do this is to lose almost all richness or purpose in human life. He who has never loved, has never felt the call of a heroic ethic to give and not to count the cost, to labor and not to ask for any reward has lived far below the peak levels of human experience. Economic man dwells in Limbo—he is not good enough for Heaven or bad enough for Hell. His virtues are minor virtues: he is punctual, courteous, honest, truthful, painstaking, thrifty, hardworking. His vices are minor vices: niggardliness, parsimoniousness, chicanery. Even the covetousness of which he is often accused is a playful and innocent thing compared with the dreadful covetousness of the proud. On the whole he escapes the deadly sins, for his very vulgarity saves him from pride (how much better, for instance, is the commercial vulgarity of Coca Cola than the heroic diabolism of Hitler). But he misses the Great Virtue, and in that he is less than Man, for God has made man for himself, and he has an ineradicable hunger for the Divine, the heroic, the sanctified and uneconomic (1968, p. 215).

Endnotes

1 In most CST documents the paragraphs are numbered. Thus the numbers in brackets refer to paragraphs.

2 This and the above material are drawn from the *Economic Report of the President 2005*, Krugman (2006), Jameson (forthcoming), and the Census Bureau's on-line 2005 report on poverty (released August 29, 2006).

3 The late Richard Henry Tawney, Christian, socialist, Professor of Economic History at the London School of Economics, was the author of *Religion and the Rise of Capitalism*, *The Acquisitive Society*, *Equality*, and many other works on the origins, nature, and reform of modern industrial economies.

4 This is not quite accurate. Many economists would say that in maximizing their self-interest people might choose to help others because it makes them feel good. But in practice economists focus on people wanting more goods and services.

5 See Rabin (2004) and Frank (2003) for a summary of recent research.

6 In *Hard Times*, Charles Dickens dismisses the doctrines of classical political economy, as seen in the writings of his character Gradgrind, as "proving...that the Good Samaritan was a Bad Economist" (see Frey 1996).

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