

"The Right and the Good: And the Retrieval of Welfare Economics"

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Presented before

The Association for Christian Economics

Boston, Mass.

January 3, 1994

## Introduction: the Right and the Good

There is a fundamental ambiguity running through contemporary public policy debate concerning the legitimacy of liberal institutions -- concerning the moral foundation for the market economy and the democratic polity. The ambiguity has to do with the distinction between two different conceptions of the relationship between the right and the good.

According to one point of view, the right is prior to the good. The fundamental objective for public policy is to specify and protect individual rights -- e.g. the right to vote, to own property, to contract freely. Whatever end-state results emerge from the free exercise of such rights are to be accepted as the good -- as morally binding on the members of polity. Logical positivism provides the standard philosophic justification for such a right-prior-to-good position. According to such a position, public discourse and policy formation must face the crucial fact -- judgements of value cannot be justified by appeal to science, and if they cannot be justified by science, they cannot be rationally justified at all. Since judgements of value are arbitrary, nothing more than the idiosyncratic expression of arbitrary personal preference, public policy is to proceed, social cooperation is to be achieved, by allowing individuals maximal freedom to choose. In Rawlsian terminology, the goal of public policy is the implementation of pure procedural justice. Get the procedures right and whatever substantive results emerge from the procedure are to be accepted as society's decision as to the good. Thus, the right is prior to the good.

According to a second point of view, the good is prior to the right. By way of religious belief, philosophic speculation, reflection on culture, certain goods, or perfections can be identified as appropriate to the human situation.

The function or purpose of public policy is to achieve the implementation of such goods-e.g. for Aristotle, the polity is to be organized so as to bring citizens to live the "good life" -- of moral virtue, cultural excellence.

Classical culture may have been based on the supposition that the authentic human good can be achieved, perfection implemented, only through the exercise of hierarchial authority. Philosophers and kings, emperors and popes know what is best for the people and through threat of punishment coerce them to behave accordingly. Now it must be emphasized from the beginning, though the fact may not be apparent to those reared in modern, liberal culture, the resort to coercive authority is not -- repeat not -- a necessary component of the good-prior-to-right approach to public policy. In fact, the Enlightenment project can be understood as based on the realization that authentic human good can be accurately discerned and fully implemented only through the exercise of human freedom. Rights must be carefully specified and enforced not because values are arbitrary but because free interaction in the exercise of rights is a necessary condition for identifying them. Rights are important, perhaps crucially so, but subordinate to the good.

Aristotle's heroic attempt to conflate ethics and politics provides history's best known instance of a social philosophy based on the priority of good over right. The burgeoning contemporary interest in hermeneutics suggests, however, that his classical view may be due for revival in contemporary speculation about the grounds of economic policy, the justification for policy and institutional development.

## Welfare Economics: The Emergence of Ambiguity

Neoclassical welfare economics originated in the conviction that the good is prior to the right. Thus, according to A. C. Pigou:

"The complicated analyses which economists carry through... are instruments for bettering human life. The misery and squalor that surround us ...are evils too plain to be ignored. By the knowledge our science seeks it is possible that they may be restrained."<sup>1</sup>

Taking for granted the value judgement that poverty is an evil, Pigou sought to show how the redefinition of rights (e.g. to take account of externalities) could contribute to attainment of the public good.

Pigou may have thus believed that good is prior to right. But a funny thing happened to welfare economics on the way from Pigou to the model pioneered by Hicks and Kaldor in the 1930's.<sup>2</sup> The latter model was developed to meet an objection raised by Lionel Robbins. With rapier wit and malicious delight, Robbins had sought to discredit the pseudo-scientific case for free trade by showing that every policy adjustment causes a shift in income distribution. This being the case, the attempt to prove (e.g.) that repeal of the Corn Laws is socially desirable requires an unscientific "interpersonal utility comparison" of one man's gain (the consumer) with another man's loss (the landlord).

Taking up the challenge, Hicks-Kaldor advanced the argument that interpersonal comparison of utilities could be bypassed in advocating those efficiency enhancing policy moves which raise the level of real national income. For the additional taxes generated by an expansion of social income could be used to finance compensating benefits for the losers -- in the Corn Law example, for landlords. It is such a line of argument that originally produced the famous Hicks-Kaldor "compensation principle."

In its original form the principle was meant to show that the possibility of paying "compensation" is a side effect of those resource reallocations which raise aggregate income. Implicitly invoking the philosophic assumption that good is prior to right, the analysis takes it for granted that higher levels of income facilitate attainment of the good -- e.g. reduction of the misery and squalor referred to by Pigou. However, in the process of articulating the Hicks-Kaldor model, the compensation principle was generalized and in the process transformed. Harrod pointed out that a policy adjustment that allows for compensation to would be losers is one that could be carried through with society's unanimous consent. With this move the appeal to unanimity becomes the test for public policy. Those practices and institutions which facilitate the attainment of such unanimity -- e.g. specialization and exchange within a system of perfect markets -- are henceforth to be identified as socially desirable.

It is this later version of the Hicks-Kaldor compensation principle that migrated from economics into public choice theory and political philosophy (of Buchanan's use of "Wicksell unanimity" as the axiom of his model; Rawl's difference principle as a Kantian generalization of the Hicks-Kaldor approach). and into the New Economic History. Decisions in court cases, the evolution of legal and economic institutions, as well as shifts in the pattern of commodity production and distribution, are henceforth to be evaluated as procedures for achieving the unanimous consent of society's members. Such generalization of the compensation principle accomplished something more than the synthesis of economic and political theory. Interpreting social decision making as a search for unanimity was also compatible with the logical positivism that, thanks to Bertrand Russell and A. J. Ayer, was largely taken for granted by economists and other social scientists half a century ago. If unanimous consent to a policy can be achieved, no appeal to philosophy, theology, or ethical theory to evaluate the end state result seems to be required.

Once it is accepted that unanimous endorsement is to be the test for public policy, the task of the social analyst becomes clear. He is to take the preferences and desires of individuals as given and try to identify those positive-sum social adjustments that will facilitate the efficient, mutually beneficial gratification of such desires. To note a point that is crucial for the thesis of this paper, social theory which thus takes desires as given and seeks procedures for their efficient satisfaction has come to adopt the root philosophic principle referred to here as right-prior-to-good.

The development of welfare economics from Pigou to the Hicks-Kaldor model thus involves an implicit but crucial shift of philosophic foundations. Good is demoted from its position as providing guidance and legitimacy for rights to consequential end state that emerges after the fact from the exercise of such rights. The good-right relationship has come to be reversed.

So far as economic analysis is concerned, the philosophic shift may seem inconsequential. Operating out of a good-prior-to-right perspective, Pigou identified cross-sector VMP equalization as a necessary condition for maximizing real income and thus achieving the good. Hicks introduced Pareto Optimality to clarify Pigou's analysis and employed it to show that achieving output-maximizing optimality would facilitate the attainment of unanimity.<sup>3</sup>

Though of no apparent significance for economic analysis, the implicit shift of philosophical foundations is of immense importance for the Christian economist. A society which looks to welfare economics for guidance in the shaping of policy, but in agreement with Pigou adheres firmly to the belief that good is prior to right, can achieve a self understanding that sublimates the quest for economic progress into larger public purpose. A society which with Hicks-Kaldor gives priority to the right has accommodated itself to the moral agnosticism of logical positivism, but has pushed a concern for the good and noble off the public agenda. Though it may achieve economic expansion such a society is engaged in a monstrous exercise of collective blasphemy and is headed for disaster (breakdown of the family? collapse of the social safety net? crime and violence in the streets?)

The insights acquired by the development of neoclassical welfare economics are of deep level concern for the Christian economist. Moreover, the contemporary turn to post-modernity, the rejection of positivism, the resort to hermeneutics for a deeper understanding of the economists' project, suggest that the insights acquired by welfare economics can perhaps now be retrieved, stabilized within the context of an authentic ethic. A first step toward such retrieval is afforded by reconsideration of the connection between (i) Aristotle's conception of the "good life" -- of the experience of eudaimonia; and (ii) economic activity.<sup>4</sup>

### Eudaimonia and the Aristotelian Efficiency Imperative

According to Aristotle's teleological reading of nature, there is in human affairs some one highest good which men seek always for its own sake, and never for the sake of something else. This ultimate summum bonum is a kind of rational flourishing of the human spirit identified as "happiness" (eudaimonia) -- "activity of soul in accordance with perfect virtue" (Nicomachean Ethics, I). Rejecting the utilitarian notion that the "good life" is one of maximal pleasure, identifying moral activity not as rational obedience to a categorical imperative but as response to natural inclination, Aristotle affirms that eudaimonia is achieved in a life of wisdom and virtue. "Each has just so much of happiness as he has of virtue and wisdom." (Politics, VII).

"Man is by nature a political animal" (Politics, I) says the famous formula. A conception of political activity that in our day would be recognized as public choice theory is taken account of and explicitly rejected as unworthy of man. Butcher, baker, and candlestick maker can indeed get together, establish property rights and cooperate through exchange. But the human polity is not a "mere society...established for the prevention of

crime and for the sake of exchange" (Politics, III,9). On the contrary, the polity is to be understood as that "perfect society" which "originates in the needs of life" (in the biological drive toward preservation) but "continues in existence for the sake of the good life" (Politics, I).

Taking over Plato's threefold distinction between (i) "goods of soul" (wisdom and virtue); (ii) "goods of body" (health and strength); and (iii) "exterior goods" (e.g. wealth), Aristotle proceeds to an inference that would seem to be of critical importance for understanding economic activity. Strictly considered the actualization of perfective human flourishing (eudaimonia) involves only wisdom and virtue -- the "goods of soul." But man is an animal, not an angel. However sublime the experience of eudaimonia may be, a member of the human species attains, exercises, enjoys full perfective realization only through the use of a human body. Such an organism has to be fed, clothed, housed -- i.e. provided with a supply of class (iii) "exterior goods." Taking careful account of alternative viewpoints, Aristotle comes to the conclusion that the truly authentic human life is the life of virtue "when virtue has enough external goods for the performance of virtuous actions." (Politics, VII).

Such a principle of political theory is based upon a more comprehensive line of argument developed in the Nicomachean Ethics. A biological distinction between plant, animal, and man is used to identify the exercise of reason as the specific function, and hence perfective activity of man. In a later context, the same distinction leads to the inference that natural resources -- mineral, plant, and animal -- are to be used, according to the intention of nature, as instrumental goods in man's thrust toward his own perfection. In such a perspective, economic activity -- the extractive and productive arts, supplemented by trade and exchange -- appears as part of a cosmic teleological process whereby all of nature and history are subordinated to what for Aristotle is "the last and highest product of civilization" -- to the physical, moral, and cultural perfection of the human species.<sup>5</sup>

Such a teleological conception of economic activity must be distinguished from another invocation of "final cause" that has had a long history in economic enquiry. "Consumption," says the famous dictum of Adam Smith, "is the sole end and purpose of all production." For Smith, economic activity is biological process -- intended to provide "a plentiful revenue of subsistence for the people."<sup>6</sup> In an Aristotelian perspective, such a conception of the purpose of economic activity overlooks the crucial distinction between (i) mere living; and (ii) living the "good life" -- of virtue and wisdom. Commodities produced are not only to be consumed in the satisfaction of biological need. Wealth is also produced to provide the virtuous man with the "instruments" he needs to exemplify a wide range of human excellence -- feeding the hungry, to be sure; but also building cathedrals, art museums, and libraries.

Laying the psychological foundation for his moral theory, Aristotle at one point indicates that there is a fundamental "right rule" which the man of virtue brings to bear in the act of moral choice. Morally worthy behavior requires one to follow the "mean," but the mean itself is "determined by the right rule," a conclusion which leads to the question -- "what is the rule and the standard that fixes it?"

For an understanding of Aristotle's "rule" one needs to pay careful attention to the distinction he makes between two kinds of goods -- between those which are both "good and praiseworthy" and those which are "naturally good but not praiseworthy." The first category includes the virtues -- moral and cultural excellences which have their own intrinsic nobility and are to be chosen only for their own sake. The "not praiseworthy" kind of good, however, is merely useful. Unlike elements in the "praiseworthy" category, they derive their value only from the contribution they make to the attainment of those goods desirable for their own sake. Moreover, Aristotle indicates that recognizing the derivative value of a useful good requires of the agent only that he judge accurately of a technical, instrumental relationship between end and means. The distinction between two kinds of good indicates that, when deciding upon the use of the second class, it is appropriate for the moral agent to

take the end as given, and judge such goods in terms of their instrumental efficacy in achieving the end assumed.

Furthermore, in his analysis of decision making (Nicomachean Ethics, III) Aristotle also observes that "it is difficult sometimes to determine what should be chosen at what cost" and further that if the end "seems to be attained by several means," the agent should consider "by which it is most easily and best produced." Thus, in his attempt to formulate a "right rule," Aristotle recognizes that in the choice of useful goods the agent may have to select a particular option out of alternative ways to achieve competing ends. In such a case, as the reference to the trade-off possibilities between different kinds of useful goods indicates (Nicomachean Ethics, V) substitution between ends is possible and resources used to produce such goods are considered fungible. When these considerations are taken into account, it becomes apparent that the elusive "rule" referred to by Aristotle is a notion well-known to economists. The "rule" is the principle of opportunity cost. According to such a principle, since choice requires selecting alternative means to competing ends, the agent should seek for a least-cost, maximal efficiency point of balance where benefit comes into equality with cost. Stated in the terminology of neoclassical welfare economics, the rule requires the agent to make that selection among competing ends (commodity bundles) that brings the marginal rate of substitution into equality with the marginal rate of transformation.

The attempt to identify Aristotle's "right rule" with the principle of opportunity cost calls for careful qualification. To note one very, very important point -- the rule applies only to choice having to do with useful, "nonpraiseworthy" goods. In response to the positivist insistence (e.g. by Lionel Robbins) that policy analysis must forego the evaluation of "ends" as such, trying to extend the insights acquired through the marginalist revolution, economists sometimes succumb to the temptation to generalize the opportunity cost rule and make it into a categorical imperative governing every act of moral choice.

This writer once heard a future president of the American Economic Association explain that the calculation of trade-offs could determine the choice not only between bacon and eggs, but also between such non-material goods as "freedom" and "security." And we are all familiar with the kind of "economic analysis" of family life which treats children, like refrigerator and TV sets, as arguments in the utility function of rational, pleasure-maximizing egotists. To note the extreme in nonsense, we sometimes encounter an attempt to "explain" acts of prayer and worship as an effort to strike an optimizing balance between this world pleasures and the (carefully--discounted for probability, of course) joys to be encountered in the next.

Such attempts to generalize the "right rule" are not consistent with the position in the Ethics and Politics. The "rule" may require benefit-cost calculation but such calculation bears only upon decisions having to do with useful, "nonpraiseworthy" goods -- such as commodities to be consumed and resources employed to produce them. Philosophers point out, it is a travesty of Aristotle to identify the virtuous wise man as one who calculates the benefit-cost trade off (e.g.) between fortitude and temperance and then strikes a maximizing balance between the two. It is a comparable travesty to extend the "rule" to rely on benefit cost calculation in making decisions (e.g.) to beget offspring, to vote, to praise the Lord.

It is also important to note, however, that when properly restricted to the domain of useful, the Aristotelian rule is indeed a moral, not technical imperative. As applied to commodity production, compliance with the rule is a necessary condition for implementation of the Aristotelian teaching on private property. The Stagyrite insists -- the communistic system proposed by Plato must be rejected. To trigger appropriate incentives -- the virtuous individual's love for excellence; not the egotist's effort to maximize pleasure -- a distinction between mine and thine must be introduced. Private property must be established. But he is also equally insistent -- such resources must be "common in use." "It is clearly better that property should be private, but the use of it common" (Politics, II,5). But if the use of property, a "nonpraiseworthy" good, (i) is to comply

with the opportunity cost "rule;" and (ii) also be "common in use," it follows that resources must be employed efficiently -- so as to achieve a maximal utility pay off for the community at large. A community whose common endeavor is guided by an overarching commitment to the "good life" of moral and cultural excellence will strive to organize economic activity so as to comply with the "rule," so as to avoid waste, so as to achieve input-to-output efficiency in its use of resources.<sup>8</sup>

To conclude this excursion into Aristotle, his ethical system clearly presupposes that the good (a life of virtue) is prior to the right. It is also the case that in his perspective, economic activity -- the production and distribution of useful commodities -- is to be governed by a fundamental moral principle.

That principle is identified here as the Aristotelian Efficiency Imperative. A society given over to the implementation of moral and cultural excellence in its common life will underwrite its commitment to cultural perfection with the principle that the use of productive resources must be governed by such an imperative.

As for the retrieval of welfare economics, my reading of Aristotle indicates that the damage done as the Hicks-Kaldor "compensation principle" is allowed to convert policy analysis into a search for unanimity could be overcome, that the grand neoclassical effort to elucidate basic policy guidelines for a market economy could be salvaged, by showing that such policy analysis can be grounded in the Aristotelian Efficiency Imperative.

Such a linkage can be discerned by examining the three-way complementarity between: (i) Aristotle's moral philosophy; (ii) that mid-20th century Roman Catholic movement toward intellectual/cultural retrieval known as "neoscholasticism"; and (iii) the contemporary effort to deepen our understanding of economics by resort to hermeneutics.

### Aristotle Revisited: The Neoscholastic Movement

In his 13th century effort to conflate Aristotelian moral psychology with Roman legal concepts, St. Thomas Aquinas identified those primal human drives toward biological, social, and cultural perfection that elicit human action as so many "precepts of the natural law."<sup>9</sup> In later centuries these "precepts" came to be misunderstood -- as so many arbitrary "commands" imposed on mankind by an omnipotent God; as "paragraphs of a law code declared binding by the Church,"<sup>10</sup> or in response to the challenge of the Enlightenment, as axioms in a pattern of deductive moral reasoning. Moral theology especially as expounded by those producing "manuals" for the guidance of confessors came to adopt the "language of rationalism" and to use such language to defend a body of bedrock moral principles that would provide a "fence against individualistic and subjective deviations."<sup>11</sup> One of the major accomplishments of the Neoscholastic movement led to a correction of such deviations and to a retrieval of the authentic Aristotelian/Thomist conception of moral cognition.

Human conduct is a special kind of "motion" (change in the cosmos) differentiated both from the natural growth of biological organisms and from the "necessity" operating in physical causality. Such motion is self-initiated, informed by an intellectual grasp of the truth, and motivated by a basic desire to exemplify in conduct those moral values or "excellences" desirable for their own sake. Knowledge of moral value, of the "perfection" to be instantiated in human praxis, however is not to be acquired by adopting a characteristic tenet of the culture of modernity -- the belief that science is the only source of reliable knowledge. Moral insight is achieved neither by observation of empirical fact, nor deductively as a "series of geometrical theorems" derived from ethical axiom.<sup>12</sup> Tapping into the original Aristotelian tradition, invoking deep metaphysical conceptions of the relationship between "the True" and "the Good," the neoscholastics locate the source of moral knowledge in human "inclination". The root practical percept -- "good is to be done and evil avoided" -- is, like the principle of noncontradiction in theoretical reasoning, discerned naturally as the response to the first glimmer of

human experience. But in the acquisition of moral knowledge, in the process whereby the good-to-be-done principle acquires content, a socialization process begins early on in the life of a moral agent. His natural desire for good is shaped by experience, by instruction received in the family, by direction provided by mentors from the wider social milieu. His natural instinct for good clarified and stabilized by virtuous habit, the moral agent comes to discern potential moral value, the perfective good to be instantiated through action "by way of inclination." According to the neoscholastic exposition, "the virtuous man.... is inclined toward what ought to be done by the virtue he possesses. His judgment, accordingly, is one per modum inclinationis."<sup>13</sup>

To avoid misunderstanding it should be noted, the insistence that moral cognition is not "rational," not achieved by logical deduction from axiom is not an admission that judgments of value are ultimately emotive, the expression of personal taste, The "desire" which guides the decision to act is not the equivalent to that idiosyncratic "preference" which according to the logical positivist model of decision making, identifies values to be implemented through personal decision and public policy. Derived neither from empirical observation nor by logical deduction, judgments of value have nevertheless their proper test for validity. The criterion which separates the true from the false in practical judgments of value is "conformity to right desire." The intuition which guides choice (by way of desire) is a response to the call of the good resonating in the soul of the virtuous-for the believer moved by Faith, to an opportunity to become through right action "a presence of God's love and goodness in the world."<sup>14</sup>

Maritain at one time used such an understanding of moral knowledge to interpret the findings of anthropology (e.g. the work of Durkheim and Levy-Bruhl) as to produce a philosophy of history, or generalized theory of cultural development. Originating in those biological/psychic drives toward self preservation, procreation, and social life (the "precepts of the natural law,") moral knowledge accumulates through a "sort of vegetative development and growth."<sup>15</sup> The process of moral discernment is social, instinctive, profoundly experiential and, so Maritain affirms, "progressive."<sup>16</sup> There is "immutability" in the natural law "ontologically considered" but so Maritain the philosopher also maintains, there is necessarily "progress and relativity as regards human awareness of it."<sup>17</sup> Mankind's eventual realization that slavery is evil, that child labor should be prohibited, that the "whip of destitution" is not the proper way to motivate productive effort are cited as instances of the way perception of the moral law has evolved, developed, progressed.<sup>18</sup> To note a striking illustration of such progress, the principle that "all men are created equal" is not, as Jefferson maintained at the height of the Enlightenment, a "self-evident" proposition. On the contrary, discovery of such a crucial ethical belief was "essentially due to progress in moral experience, through which the root inclinations of human nature as regards the rights of the human person were set free, and consequently knowledge through inclination with regard to them developed."<sup>19</sup>

According to the neoscholastic exposition, there is a role for theoretical reflection, for logical systematization in society's acquisition of a fund of moral insight. The particular action-guiding decision of the individual responding to virtuous inclination in a set of unique circumstances "admits of no logical connection with any rational premises..it is strictly speaking incommunicable."<sup>20</sup> But all action is "communicative," revealing something of the agent's inevitably personal perception of moral value to fellow members of his community. Such insights accumulate, coalesce and can eventually be linked together, fitted into a comprehensive moral metaphysic so as to produce a system of Christian ethics, or what in the Catholic tradition is referred to as "moral theology." The work of systematization produces a two-level model of moral knowledge. The professional who has learned his theology out of books "has a cognitive grasp of principles" and makes moral judgements (e.g. of typical cases) "per modum cognitionis." The virtuous individual, on the other hand, trained not by books but by experience, responds to his habitual love of the good and makes his decision (in the unique, particular instance) "per modum inclinationis."<sup>21</sup>

As regards progress in the community's fund of moral insight, discernment by the virtuous individual takes priority over the work of the theoretician and philosopher. The construction of a systematic, rational moral philosophy is "a kind of after-knowledge...which justifies, re-interprets, formulates in a more systematic manner the natural morality of mankind." Such "theoretical reflection cannot replace in moral matters the slow advance of consciousness, conscience and experience.." cumulative progress of "our lived awareness of our basic inclinations."<sup>22</sup> "Rules established in nonexplanatory ways" (by generalizing the experience of the virtuous) have their validity even though the experts have not yet succeeded in combining such rules into a logical., explanatory system..<sup>23</sup>

As regards the implications of Aristotelian/Thomist moral theory for economics, post-Vatican II efforts to extend the neoscholastic project for cultural retrieval can be particularly instructive. Jesuit Father Joseph Fuchs, whose work is said to have set the stage for Vatican II's demand that moral theology "rediscover its biblical, experiential and Christological roots"<sup>25</sup> reminds the believer that "the Gospel does not simply give us an eternal summary of...values; it is rather a true help to discovering these values...on our own."<sup>25</sup> This process of discovery generates a dynamism bringing the believer both to hold fast to what is good, and also to search out new values as yet hidden beyond the horizon of cultural experience. Such a discovery is to steer a middle course between an erroneous "objectivism" which understands moral truth as so many commands issued by the Church, and an equally false "subjectivism" which allows individual free choice to create, rather than discern, the good and the true. According to the "new humanism" at work in the Second Vatican Council, the individual moral agent "does not make himself the measure of truth; rather he allows himself to be measured, in his creative activity, by the unabbreviated fullness of reality."<sup>26</sup>

In coming to moral decision, either as a private citizen or public official, the individual draws upon tradition -- upon the accumulated experience of community. The application of given moral norms to the particular situation, however, must avoid the "objectivist" error which would reduce such application to rule/case syllogistic deduction. Rather, the process of application has a "creative" aspect; it has to be understood as "a continuation of the process of discovering moral truths in the history of mankind."<sup>27</sup> And in explaining the process, Father Fuchs uses a term that has received a great deal of play in contemporary discussion of economic methodology. The process of discovering new moral truth through the "application" of received moral tradition "occurs in a creative hermeneutic process of understanding and translation." In a phrase that will sound familiar to the students of Habermas and Gadamer, Fuchs affirms that the hermeneutic endeavor involves the "translation" of a "text" (of a given ethical norm, a law, an established practice) "into the present tense."<sup>28</sup>

Writing in the Jesuit publication Theological Studies Thomas R. Kopsteiner sets out to sketch a "fundamental moral theology" adapted to meet the challenge posed by the globalization of modern culture.<sup>29</sup> In true Aristotelian fashion he affirms that a conception of "human flourishing" or of what constitutes the "morally good life" provides the underlying primal drive that "animates one's entire life project," gives "meaning" to one's conduct, and provides guidelines for that "ability to achieve the good" which constitutes true moral freedom. "Right actions are exemplary instantiations of what one has taken to be the meaning of human flourishing."<sup>30</sup> (p. 507). But he also insists that the effort to implement one's conception of the "good life," to express "meaning" in one's decision making, always emerges out of a given social context, out of a preexisting tradition. "There is no such thing as a culturally naked moral law."<sup>31</sup> In the effort to develop a global moral theology, Kopsteiner draws on the history of science, on the philosophical work of Ricoeur, Habermas, Gadamer.

The reference to hermeneutics by both Fuchs and Kopsteiner suggests that it might be of interest for the Christian economist to consider the three-way relationship between (i) Aristotelian/Thomist moral theology, especially as expounded by the neoscholastics; (ii) latter day efforts to invoke hermeneutics as the key to

understanding the science of economics; and (iii) the contribution neoclassical welfare economics might make to the self-understanding of market societies.

### Hermeneutics and Economics

According to Lawrence Berger's exposition of the connection between hermeneutics and economics, man is a "self-evaluating," a "self-interpreting animal," with the interpretation taking place against a "background of distinctions of worth-between noble and base." Action by such an agent also generates "subject referring emotions" which reflect the fact that "we are moved by the significance of a particular state of affairs," a state of affairs that comes to be more clearly understood as the emotional component of action is subjected to "articulation." The reference to emotion is not an invitation to the kind of value agnosticism sponsored by logical positivism. For Berger makes it clear, the self-understanding which guides action and calls forth emotional response "can be more or less correct..."<sup>32</sup>

G. B. Madison in his contribution to the Lavoie volume on Economics and Hermeneutics, insists that the human sciences reject "the Natural Science Ideal" and recognize that the goal of social science is "not explanation, but rather understanding." He goes on to raise the basic question: "What exactly is it that has happened whenever we claim to have arrived at an understanding of things"... for economics, the "things" in question being those "modes of behavior-having to do with the production and exchange of goods and services."<sup>33</sup>

For Madison, such understanding is achieved when the economist comes to discern "meaningful patterns in human endeavors." Recognizing (with Ricoeur) that "only individuals understand and act," that such action is guided by a quest for "meaning" and by the individual's "understanding of himself," Madison makes one of the crucial points of hermeneutical theory. There is a subconscious, instinctive, collective drive at work in human practice. For the individual comes to "an understanding of himself only through his practical prereflective engagement with others and his participation (on a level before any self-conscious awareness) in society."<sup>34</sup>

Without claiming to be a philosopher this writer would suggest, there is a strong complementarity between the neoscholastic conception of the way "practical reason" guides manmade free action and the understanding of human practice proffered by Berger and Madison. Unlike sticks and stones, plants and animals, man does indeed -- so the neoscholastics would agree -- move himself by way of "self interpretation," by his grasp of the distinction between noble and base, his insight into "the significance of a particular state of affairs" (of potential value to be instantiated by action).

The capacity to recognize potential value and the concomitant love of the good reflect the pattern of moral virtue, of conduct-stabilizing good habit, enmeshed in the actor's soul. As grasp of the human good deepens, as his self-understanding clarifies, the human person acquires that deep-level capacity to identify potential moral value which the neoscholastics refer to as "knowledge by inclination." Thus the neoscholastics would agree; with Madison -- the individual acquires the beginning of that "self-understanding" which guides action through "prereflective engagement with others;" with Berger -- perception of the good (by way of "inclination") does indeed generate "subject referring emotion" which through "articulation" (growth in virtue) sharpens insight into the "significance of a state of affairs."

"Custom makes law," wrote St. Thomas Aquinas in the 13th century. Stabilizing moral habit for the individual coalesces into evolving tradition for the community -- into what Madison refers to as "meaningful" patterns of relations in human endeavors." (p. 40) Social theory will build on communal experience, help

identify the goods sought through communal social action, and in the process provide "the constitutive understanding necessary for `continued, purified, reformed practice.'" As the previous reference to Maritain's work indicates, the neoscholastics invoke what appears to be an identical conception of the relationship between theory and praxis. For both contemporary writers on hermeneutics in economics and 20th century expositors of St. Thomas on Aristotle, theoretical formulation is second order, clarifying and purifying, rather than leading or initiating moral progress. In paraphrase of the oft-quoted Thesis of Feuerbach, philosophers interpret the world; but virtuous men of action actually change it (though with some clarifying assistance from the theoreticians).

According to the hermeneutic view, the individual decision maker (consumer; entrepreneur; investor) who functions as a critical player in the neoclassical model is moved not by egoistic self interest as the standard assumptions would have it, but rather by a concern for "moral goodness ... a sense of worth."<sup>36</sup> Neoscholastic moral theology would certainly agree. Though often deflected by sinful greed, economic activity is moved by the love of the good, particularly by an understanding of the demands of justice acquired by way of inclination and working in the souls of honest men.

As regards economic activity, Berger makes one observation that is of crucial significance for the central thesis of this paper. Charles Taylor is cited as believing that "there can be certain regularities of economic life resistant to changes in self-understanding," and that the "apparent success of economics rests..on cultural conditions that allow us to be confident that in some departments of their lives people will behave according to rather tightly calculable considerations of instrumental rationality."<sup>37</sup>

Now if:

(i) our interpretation of Aristotle's "rule" for the choice of "nonpraiseworthy" goods is correct; and if

(ii) there is a significant connection between such a "rule" and Aristotle's teaching that private property must be "common as to use;" and if

(iii) the neoscholastic view of the way practical reason generates progressive cultural evolution is sound, an explanation for the cultural fact referred to by Berger and Taylor would seem to be at hand.

Modern market society can be said to have discerned, instinctively and collectively, the provenance of the Aristotelian Efficiency Imperative. Such discernment provided the foundation for medieval theorizing on economic justice, particularly for the oft-misunderstood teaching on the just price.<sup>38</sup> An inchoate perception of such a fundamental moral value can perhaps be shown to underlay post medieval development in economic institutions -- in the evolution of property rights, formulations of anti-trust law etc. The "regularities of economic life" noted by Taylor are thus the product not of resistance to, but of growth in "self-understanding." It is indeed the case that "practices have a point"<sup>39</sup> -- one such point being modernity's instinctive and collective realization that retrograde tribal strictures, irrational nationalistic efforts to deflect economic activity (cf. the recent Nafta debate) must give way to functional rationality so as to allow the Aristotelian Efficiency Imperative to direct use of the resource base.

According to such an interpretation of cultural/economic development, neoclassical general equilibrium welfare economics would qualify as what Berger designates as a "good theory" -- ie. as a theory that will "bring practices out in the clear," contribute to "more effective practice" by enhancing the "constitutive understanding" of market societies. To be tested for validity, such a theory "must be generally accepted by the practicing community."<sup>40</sup> The historical emergence of a "disembedded economy" (pace! Polanyi; pace! MacIntyre) and of course the dramatic East European events of 1989 strongly suggest that such a test has been passed.

As regards the Aristotelian Efficiency Imperative and neoclassical economics, one passage from Kopfensteiner's "essay in fundamental moral theology" seems to be of particular special interest. According to Kopfensteiner: "Moral reason builds a normal scientific tradition with a family resemblance or internal coherence among norms. Sharing in a cognitive tradition allows moral reason to pose questions in a meaningful way...and provide adequate answers...At times, the scientific community is required to question-otherwise unquestioned assumptions...new insights are progressively discovered, communicated and carried through in better alternatives for action. The resultant shift of paradigm is characterized as progress."<sup>41</sup>

To apply Kopfensteiner's conception of moral progress to the interpretation of welfare economics, Hicks, Kaldor et al. worked out of a "tradition" -- embodied in the work of Walras, Pareto, Pigou. Doing so, they were able to "pose a meaningful question" -- what are the necessary conditions for maximizing the flow of net product, for achieving full "efficiency" in the use of productive resources? Having isolated the question, they could move forward to provide an "adequate answer," conflating the analysis of Pigou and Pareto to show that price-marginal cost equality in commodity markets is a necessary condition for achieving income-maximizing Pareto Optimality in the use of resources. Having thus clarified the basic questions, their work led the economists scientific community to challenge "unquestioned assumptions" -- particularly the ideological belief that laissez faire would suffice to achieve efficiency, or that free market processes could be relied upon (as per Hayek and Friedman) to attain both "efficiency" (in resource use) and "equity" (justice in income distribution). Their achievement cleared the way, as Kopfensteiner indicates moral progress does, for "better alternatives for action" -- for more sophisticated anti-trust policy, toward greater emphasis on the pre-market allocation of property rights as the precondition for post market justice in the distribution of income. Though distracted by the misguided effort to accommodate logical positivism, their work did in fact bring the profession to a "shift in paradigm" which can, in Kopfensteiner's words "be characterized as progress."

To bring my paper to a conclusion, conflating Aristotle by way of neoscholasticism with contemporary hermeneutics indicates that: neoclassical welfare economics can indeed be retrieved so as to provide valuable policy guidance for market societies operating in a postmodern culture. Such policy analysis need not be understood as destructive search for unanimity (by way of the Hicks-Kaldor compensation principle). What drives welfare economics is the implicit conviction that good is prior to right, and that in economic policy formulation the overarching master good is a moral value implicit in the human situation as understood in neoscholastic moral theology.

That master moral value is the Aristotelian Efficiency Imperative.

### Conclusion: A Christian Postscript

To conclude, let me touch on that basic question which is central to the raison d'etre of our organization. Is there such a thing as an identifiable, differentiated body of knowledge that can be called Christian economics?

If the central thesis of this paper is correct, the answer to that question is definitely in the negative. There is no such thing and in principle cannot be a Christian, or Roman Catholic economics. The Aristotelian Efficiency Imperative is an authentic moral value to be discerned not by appeal to the truths of revelation, but by the use of natural powers of human reason as employed (e.g..) by Aristotle in the Politics, by St. Thomas Aquinas in the Summa Theological.

As Maritain's philosophy of history indicates, as the level of civilization advances, human community comes to discover -- first by tribal instinct, eventually with the aid of philosophic speculation -- an even wider

web of moral truth, the Aristotelian Efficiency Imperative will be discerned, articulated, clarified. As it contributes to articulation of such an Imperative, neoclassical general equilibrium welfare economics provides a striking instance of theoretical speculation coming to the aid of progressive, natural moral discernment. The principles of public policy thus discerned are indeed moral principles -- e.g. he who violates an anti-trust law does grave moral evil; in the theological terms -- he sins. But those moral principles stand or fall by their own natural right. They are not derived from premises found in the Bible. In the Roman Catholic tradition, principles set down in the social magisterium are the product of natural reason (not of revealed truth). Their official endorsement by the Church can be shown to parallel advances in understanding achieved by secular economists (cf. the rejection of the labor theory of value and espousal of Pareto optimality Quadragesimo Anno (1931); the recognition of profit as an indicator of efficiency in Centesimus Annus (1991).

Christian faith will not produce a body of economic knowledge different from that to be discovered by honest, secular scientific effort. However, it is very important to note, Judeo-Christian revelation does have an immensely important and utterly unique contribution to make to the self-understanding of a modern market society. To make this point, let me draw on a recent restatement of Roman Catholic moral theology written by Father Paul J. Wadell, C.P.<sup>42</sup>

Anthropologists remind us, we come to an understanding of a culture only by deciphering the "meaning" exemplified in practice, only by discerning the relationship between base level, local activity and an overarching (perhaps implicit and inchoate) world view. For the Christian, such a world view is known by faith -- man is granted the gift of life and will one day be redeemed by a loving Creator. Through evangelization, inspired by the theological virtue of hope, the Christian strives to bring his fellow citizens to share the precious gift of faith. To the extent that such evangelization succeeds, the human community will arrive, not at a more accurate appreciation of the law of supply and demand, but at a deeper understanding of the cosmic meaning of economic activity.

In accordance with the neoscholastic principle that practical reason discerns moral value by way of inclination, Waddell affirms that "all those things that beckon us with their goodness...are genuinely good."<sup>43</sup> Among the "things" that thus "beckon" are the day to day opportunities to exercise the moral virtues. Drawing upon Judeo-Christian faith to extend the thought of Aristotle, Waddell describes moral virtues as "activities" which direct us to God...They work the transformation in us that enable our reunion with God." For the believer, this transformation process moves toward fulfillment as the theological virtue of charity (a gift of the Holy Spirit) takes root in the human soul. "Made one with us through charity, the Spirit dwells in us...making everything we do an act of perfect praise to God." Through the confluence of man-made natural excellence with theological virtue the human person becomes "a presence of God's love and goodness in the world.

Such a conception of the believer's place in the world has profound implications for "understanding," for deciphering the "meaning" of economic activity. "Everything dear to us," Wadell affirms "shines in intimation of what we love most. In their goodness they are hints of perfect goodness..." Acts of moral virtue are this world "intimations" of the joys of beatitude. Making a point that would seem to be of prime significance for the economist, Waddell affirms: "We savor the perfect goodness that is to come, not by passing over the things of this world but through them."<sup>45</sup>

To apply Wadell's analysis to economics, the Aristotelian Efficiency Imperative is a natural moral value, one of these "intermediate goods" discerned over the centuries as man comes to appreciate the potentialities of high-tech, market institutions. The perfection thus discerned is one of those "beckoning goods" which refracts into the affairs of men "the perfect joy for which we hope." Accepting the challenge posed by such a potential perfection, creating the institutions and exemplifying the virtues required to carry on economic life, the Christian believer (through the indwelling of the Holy Spirit) strives to become "a presence of God's love and

goodness in the world." He participates in economic activity, conforms his behavior to the demands of the Aristotelian Efficiency Imperative, knowing that, in the beautiful words of Father Wadell, "our lives are to be a dwelling for God, our hearts a center for God's friendship."<sup>46</sup>

## Footnotes

1. A.C. Pigou, The Economics of Welfare, Fourth Ed. (London: Macmillan and Co., Limited, 1928), preface, p. vii.
2. For detailed discussion of the 1930's developments in welfare economics, Cf. my Scholasticism and Welfare Economics (Notre Dame, Indiana: University of Notre Dame Press, 1967), Chapter IV; Mark A. Lutz and Kenneth Lux, The Challenge of Humanistic Economics (Reading, Mass.: Benjamin/Cummings Publishing Company, Inc., 1979), Chapter 5.
3. Invoking the rubric of Schumacher-style "humanistic economics", Lutz and Lux (Cf. Op. Cit., p. 101) conclude that having been "resurrected" in the 1930's, "emasculated" (by Hicks Kaldor) in the 1940's, and "allowed to decompose in the 1970's," the Pareto Optimality concept should be now properly buried and forgotten. As a procedure for achieving unanimity, for implementing the philosophic conviction that right is prior to good, the concept deserves such a fate. But Pareto Optimality can also be understood as identifying market practices contributory to maximizing the flow of real social income--with the latter understood as the overarching "good" to be achieved by the operation of economic institutions and policy. The moral significance of Pareto Optimality so understood--as contributory to the "end" which "God, the Author of Nature" has ordained for the "economic order" (for a disembedded market economy)--was recognized early on in the development of the modern Roman Catholic social magisterium. Cf the papal encyclical Quadragesimo Anno (1931), Paragraph No. 75.
4. For detailed discussion of the relationship between Aristotle's ethics and neoclassical economics, cf. my "Aristotle and the Neoclassical Tradition: the Shifting Grounds of Complementarity," History of Political Economy, Vol. 16, No. 1 (1984), pp. 107-134. Reprinted in Mark Blaug (editor) Aristotle (384-322 BC) (Brookfield, Vt.: Edward Elgar Publishing Company, 1991), pp. 243-271.
5. The quoted phrase is from W.D. Ross's well-known study Aristotle, 4th edition (New York: Clarendon Press, 1941), p. 154.
6. Wealth of Nations, Book IV, Introduction, Chapter 8. In contemporary cultural debate it is often claimed that the down side of economic growth is the looming threat to the global environment. According to an early and now classic study of the issue (Lynn White, Jr. "The Historical Roots of our Ecological Crisis," Science Vol. 155 (1967), pp. 1203-1207) the danger derives from the Judeo-Christian belief that man, placed in the cosmos at a point "a little lower than the angels," has been charged by his Creator with the obligation to "fill the earth and subdue it" (Genesis, 1). If growth poses a threat to the environment it may be because a degenerate consumerist culture cannot perceive the critical difference between (i) wealth produced as an "instrument" for the achievement of cultural perfection (Aristotle); and (ii) wealth produced merely to achieve "consumption" as the "sole end and purpose of all production" (Smith). Though sensitive to environmental issues, Pope John Paul II adopts the first conception of economic activity when he affirms that "through work" (his generic term for economic activity) man must not only satisfy consumer need ("earn his daily bread") but also "contribute to elevating unceasingly the cultural and moral level..of society." Cf the encyclical Laborem Exercens (1981), Introduction.

7. To keep the record straight, having read the poet Wordsworth, Boulding retracted such a conception of decision making in his Presidential address before the American Economic Association. Cf. American Economic Review (March, 1969).
8. Such an interpretation of Aristotle's conception of economic activity brings him into agreement with a basic proposition of 20th century economic anthropology. As stated by Frank Knight: ..men in general, and within limits, wish to behave economically, to make their activities and organization `efficient' rather than wasteful.." Quoted in O.E. Williamson, The Economic Institutions of Capitalism (New York; The Free Press, 1985), p. 241
9. Summa Theologica, I-II, Q. 94. a.2.
10. Joseph Fuchs, S.J. Christian Ethics in a Secular Arena (Washington, D.C. Georgetown University Press, 1984), p. 31.
11. John Langan, S.J. "Catholic Moral Rationalism and the Philosophical Basis of Moral Theology," Theological Studies (March, 1989), p. 31
12. Jacques Maritain, Man and the State (Chicago: University of Chicago Press, 1951) p. 91.
13. Ralph McInerny, "Appropos of Art and Connaturality," The Modern Schoolman Vol. XXXV (1958), p. 174. Cf. the reference to practical knowledge as knowledge by inclination in Jacques Maritain, Op. Cit. p. 91; Yves R. Simon, "Introduction to the Study of Practical Wisdom." The New Scholasticism (January, 1961), p. 24.
14. Paul Wadell, Cp. The Primacy of Love (New York: Paulist Press, 1992), p. 115. The Aristotelian/Thomist distinction between mere "desire" and the "right desire" of the agent formed in virtue seems to correspond with the differentiation receiving increasing attention among contemporary economists between "preferences" and "metapreferences." Market practices are to be evaluated not only in terms of their efficiency in satisfying given preferences but also according to whether such procedures induce the development of appropriate metapreferences. Cf. David George, "Does the Market Create Preferred Preferences," Review of Social Economy (Fall, 1993), pp. 323-346. In Aristotle's terms, the question is whether market practices produce virtuous good habits in the soul of the economic agent. Contemporary Marxists have apparently stumbled upon the same

distinction. "Traders make trades," affirm Gintis and Bowles, but it is also the case that "trades make traders" (Michael Zweig (editor) Religion and Economic Justice (Philadelphia: Temple University Press, 1991), p. 277). St. Thomas Aquinas, principle author of the medieval theory of the just price, would certainly agree.

15. Maritain, *Op. Cit.* p. 80.
16. On the Philosophy of History (New York: Charles Scribner's Sons, 1957); re-issued (Clifton, New Jersey; Augustus M. Kelley, Publishers 1973) p. 104. According to Etienne Gilson, "There is a progress in the political and social order, just as there is in the intellectual order of science and philosophy, each new generation becoming the beneficiary of all the truths accumulated by its predecessors..and transmitting a growing heritage to posterity." The Spirit of Medieval Philosophy (New York: Charles Scribner's Sons, 1936), p. 389.
17. Man and the State, p. 103. For the Christian it is also important to note, Maritain's belief in the possibilities of moral progress is tempered by a profound awareness of the destructive, retrogressive impact of sin in the history of mankind. Cf. his discussion of "two-fold contrasting progress-both in the direction of good and the direction of evil" Philosophy of History, p. 43.
18. Ibid. pp. 48, 107, 110.
19. Maritain, Man and the State, p. 94.
20. Simon, Op. Cit., p. 27.
21. McInerney, Op. Cit., p. 174. The text from St. Thomas usually cited in such an exposition of practical reason reads: "..in accord with a twofold manner of judging there is a twofold wisdom. A man may judge in one way by inclination, as whoever has the habit of a virtue judges rightly of what is virtuous..Hence it is the virtuous man as we read (Nicomachean Ethics, X,5) who is the measure and rule of human acts. In another way, a man may judge by knowledge, just as a man learned in moral science might be able to judge rightly about virtuous acts, though he had no virtue." *Summa Theologica* I. Q. 1, a. 6 ad 3.
22. Maritain, Philosophy of History, p. 109f.
23. "We shall fulfill the demands of justice as they are perceived by the heart of the just, without waiting until philosophers have succeeded in-demonstrating that such are, indeed, the rules of justice." Simon, *Op. Cit.*, p. 39
24. Wm. C. Spohn, S. J., in *America* (Aug. 13, 1988), p. 90.
25. Fuchs, *Op. Cit.*, p. 24
26. Ibid., p. 33
27. Ibid., p. 35
28. Ibid., p. 41 f

29. "Globalization and the Autonomy of Moral Reasoning: An Essay in Fundamental Moral Theology," Theological Studies (Sept., 1993), pp.485-511.
30. Ibid., pp. 409f, p. 507
31. Ibid., p. 487
32. Lawrence Berger, "Economics and Hermeneutics," Economics and Philosophy (Oct. 1989) pp. 209-233, esp. pp. 210-215.
33. "Getting Beyond Objectivism: The Philosophical Hermeneutics of Gadamer and Ricouer," in Don Lavoie (editor) Economics and Hermeneutics (New York: Routledge,1991) pp.34-58
34. Ibid., pp. 40-43
35. Berger, Op. Cit., p. 214, quoting Charles Taylor.
36. Ibid., p. 215
37. Ibid., p. 213
38. (Of my "Justum Pretium: One More Round in an `Endless Series'" History of Political Economy (Winter, 1977), pp. 504-521. Reprinted in Mark Blaug (editor) St. Thomas Aquinas (1225-1274) (Brookfield, Vermont: Edward Elgar Publishing Company 1991) pp. 226-243.
39. Bergen O,p. Cit., p. 39
40. Ibid. pp. 40f.
41. Kopfensteiner, Op. Cit., p. 493
42. The Primacy of Love: An Introduction to the Ethics of Thomas Aquinas (New York: Paulist Press, 1992)
43. Ibid., p. 41
44. Ibid., pp. 108, 115, 140.
45. Ibid., p. 41
46. Ibid., p. 149