Catholic Economics

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Alternatives to the Jungle

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To my ever lovely Aurora

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Preface

Our present economic systems and policies are not working well. The American economy suffers from exorbitant, and still widening, inequalities. It consumes resources wastefully; it degrades and pollutes the environment. Despite some recent improvement, America still has clearly too much unemployment and too many workers who are underemployed, underpaid, and badly treated. These problems are not just American; similar troubles afflict many countries all over the world.

Concerning economic and social matters, the Catholic Church has much to say. She has indeed a large body of teachings, based on fundamental Catholic doctrine and greatly developed over the past century and a half, to address the particular economic and social problems of the modern capitalist world. Yet this branch of the Church's teaching, generally known as *Catholic Social Teaching*, is often neglected and too little known, even among practicing Catholics.

Catholic Social Teaching radically challenges orthodox economic thought and practice. It explains what is wrong with the exaggerated individualism of our times: how this leads to economic behavior based narrowly on self-interest and heedless of the common good. It condemns one of the worst errors of standard economic thought: the tendency to treat human labor as just another commodity to be bought and sold in the market. It shows up the amoral character of modern economics: the view that we must blindly pursue economic efficiency, whether or not this means doing what is morally acceptable. It takes issue with the conventional view that we have to pursue endless economic growth, even though our consumption of the earth's resources is already running at unsustainable levels. And it proposes a higher and richer understanding of human freedom than the "negative freedom" promoted by orthodox economists.

This book examines our pressing economic problems in a practical manner, avoiding so far as possible the technical jargon of economics. It shows how Catholic economic thought points to ways out of the self-destructive jungle in which we are living.

CHAPTER 1

Introduction

The conviction that the economy must be autonomous, that it must be shielded from "influences" of a moral character, has led man to abuse the economic process in a thoroughly destructive way.

—Pope Benedict XVI, *Caritas in Veritate*, par. 34

This imbalance [between the very rich minority and the rest] is the result of ideologies which defend the absolute autonomy of the marketplace and financial speculation . . . behind this attitude lurks a rejection of ethics and a rejection of God.

—Pope Francis, *Evangelii Gaudium*, pars. 56, 57

Important though justice is, many economists deny that justice has any bearing on economic transactions.

—Michael R. Griffiths and John R. Lucas[1]

There is also a strong belief, which I share, that bad economics—or rather oversimplistic and overconfident economics—helped create the crisis.

—Adair Turner[2]

Economics without Ethics

We can trace many of our economic and social woes to a fact that lies hidden beneath the mountain of theories, statistics, arguments, and ideologies that the science of economics generates. That hidden fact is that economics, as it is generally understood, taught and practiced today, has by and large lost contact with ethics.

The "autonomy" (Greek *autó* = itself, *nómos* = law) of the economy and the markets simply means that the economy, nowadays dominated by the markets, is allowed to be a law unto itself. Many economists—and these economists have been all too influential for several decades—think that the economy should not be regulated by our laws, but rather that we should submit to its "laws." The political world, they say, should leave the economic world alone. But without democratic supervision and regulation, the economy becomes our master rather than our servant.

Today's highly competitive economies leave little place for ethics or morality. In our markets, producers and consumers, employers and workers, investors and borrowers act for their own private advantage. They too seldom ask themselves whether or not their actions are advantageous for others. And that "ethical negligence" does not happen only when people who trade in the markets make mistakes or deliberately misbehave. It is part of the normal functioning of autonomous markets.

This takes us all the way back to Adam Smith, but we cannot put all the blame on him. He argued that the individual "by pursuing his own interest frequently promotes that of the society more effectually than when he really intends to promote it."[3] But we have overlooked the word *frequently*. Instead, ever since the late eighteenth century, Smith's followers seem to have assumed that he wrote *normally*, or even *always*. We have favored the view that it is best simply to let everyone do what suits one's own interest without bothering about the interests of others, since the self-interested actions of us individuals will normally, or even always, combine to yield the best outcomes for us all. If that were so, then in economics, ethics would hardly be necessary. But in practice, the economy frequently does not work like that.

The distinguished Indian economist Amartya Sen, professor at Harvard and past Master of Trinity College, Cambridge (England), complains that the typical modern economist "in his economic models . . . keeps the motivations of human beings pure, simple and hard-headed, and not messed up by such things as goodwill or moral sentiments."[4] But, in the real world, we all depend on the goodwill of others, so we have a corresponding obligation to show goodwill toward them. And we can hardly have a healthy economy if our economic behavior is immoral. Economic theory, if it is to encourage decent and humane economic behavior, ought surely to recognize these facts. At the beginning of Mass, we sing: "Glory to God in the highest, and on earth peace to people of goodwill." Without goodwill, how can we hope to have peace, or prosperity, or happiness?

Free-market economics claims to offer a guarantee against tyrannical government: the markets, rather than the state, should rule our lives. The twentieth-century revival of this nineteenth-century ideology was inspired largely by reaction against fascism, Nazism, and communism. But it has become clear in recent years that markets too, given excessive power, can become oppressive tyrants. We need urgently to develop a more civilized economics than that of the free-market "jungle" in which the "fittest" not only survive but grow inordinately rich and powerful, while others (at least in mature economies) grow generally poorer or even struggle to survive at all. The aim of this book is to show how the tradition and teaching of the Catholic Church can guide us into better economic ways.

The Catholic Alternative

The Catholic Church has a substantial body of doctrine on economic and social matters, generally known as Catholic Social Teaching (CST). This is a practical, contemporary expression of Catholic theology. It is firmly based on Scripture and tradition. We can trace its roots back through the philosophy of St. Thomas Aquinas in the Middle Ages to the New Testament, and to the Old Testament too.

CST as we know it today, however, has been greatly enriched and updated by its vigorous development from the mid-nineteenth century onward. This began as a response to the pressing social and economic problems arising in the new world of the "industrial revolution," the great transition from rural to urban society and economy. Today, CST continues to develop to meet the challenges of our new age of information technology and globalization.

Yet, though CST carries vital messages for our times, it is not as well-known as it should be. Indeed, many Catholics, both laity and clergy, seem to know little about it, despite the fact that almost every pope from Leo XIII in the nineteenth century to Francis today has pronounced on this subject. The only exceptions were John Paul I, who reigned for only a month, and Benedict XV, whose short reign spanned the period of the First World War; he was preoccupied with diplomatic efforts to find a peace settlement and with humanitarian projects to help war victims.

What is worse, some Catholics deliberately reject CST. They argue that, because CST does not conform with the prevailing opinions of professional economists, there must be something wrong with it. Economists, they say, must surely know more about economics than priests, bishops, theologians, or popes. Therefore, religious thinkers and teachers should admit that "economics is not their subject" and leave it to the "experts."

That is an error. Economics is about human behavior, and the Church has always seen it as a major part of her mission to offer guidance to us wayward human beings on how to behave rightly. Christianity has inherited the tradition of the biblical prophets and lawgivers from Moses onward who have acted as guides to our worldly conduct as well as to our spiritual aspirations. The Bible is full of instructions on how we should behave toward one another, and many of these commandments are specific rules concerning economic transactions.

Some of those rules, of course, are not directly relevant to us today, who live in a very different world from that of the Bible. In any case, Christians do not consider themselves bound by all the detailed regulations of Jewish religious law. But the basic principles underlying those ancient rules are still relevant for us. It is the task of the Church to consider and explain how those principles can be applied in practice by us today.

Misguided Experts

Economic "experts" have often given advice that flies in the face of Christian teachings, not to mention common sense or basic human decency. For example, one highly regarded economist, of whom we shall have more to say later, argued that we should "gain from *not* treating one another as neighbors."[5] When notions like that are propagated by people who claim to be authoritative experts on economics, should the Church remain silent, saying, in effect: *no comment, that is not our subject*?

Furthermore, since the beginnings of modern economic science in the eighteenth century, economists have put forward a variety of differing and conflicting views. How do nonexperts discriminate between the good and the bad options? We need guidance as to which of these views are realistic, practical, and morally acceptable. The Church is surely entitled to point out to us that, while some economists' theories and practical recommendations are compatible with Church teaching, many others are definitely not.

The Vatican does not remain silent. But too many Catholics pay little attention to what the magisterium has to say about economics.

In the past few decades, the world has given the ideology of *laissez-faire* an extensive trial and has found it gravely wanting—and not for the first time. Very similar ideology prevailed in the nineteenth century; it threw up so many horrible social problems that it was largely abandoned in the first half of the twentieth. The ugly consequences of *laissez-faire* provoked the rise of communism, socialism, and other economic theories that did not rely on leaving the markets to their own devices. Today, our neo–free marketeers, or *libertarians*, obsessed by their hatred of communism and socialism, yearn to re-create the conditions that gave them birth! That is one indication of the basic fallacy of their stance.

Libertarian "Freedom"

There is a more profound explanation of why the libertarians are mistaken: their philosophy is based on a gravely defective understanding of freedom. In Catholic teaching, "there is no true freedom except in the service of what is good and just," as the *Catechism* (par. 1733) tells us; or, as Leo XIII put it, in striking words (*Libertas Praestantissimum*, par. 6): "The possibility of sinning is not freedom, but slavery." This saying, and others like it, is based on the words of Jesus (John 8:34): "Truly, truly, I say to you, everyone who commits sin is a slave to sin."

Thus, in Christian theology, sin is likened to slavery, the opposite of freedom. So freedom is fundamentally tied to virtue and justice. We can be free only in God's service. To borrow a memorable phrase from our Jewish friends, "to choose evil is to fail to be free."[6]

On the contrary, say the libertarians and proponents of *laissez-faire*, freedom is not about virtue and justice; it is about *absence of constraint*. Milton Friedman, doyen of the "Chicago school" of "neoclassical" free-market economists, put this very clearly in his best seller *Capitalism and Freedom*. In the very first chapter, he sets out one of his basic beliefs: "Economic freedom is an end in itself. . . . Freedom has nothing to say about what an individual does with his freedom."[7] Though Friedman was a Jew born and bred (but he turned atheist), his view fundamentally contradicts both Jewish and Christian philosophies of freedom.

Another prominent free-market economist, Friedrich von Hayek (it was he who disparaged neighborly behavior), was a leader of the "Austrian school" of economics. This is somewhat different from Friedman's "Chicago school," but both have in common a commitment to "negative freedom" (absence of constraints). Hayek argued that "the freedom of action that is the condition of moral merit includes the freedom to act wrongly."[8] If that is so, then there is no freedom in the kingdom of Heaven, where there is no possibility of sinning. Hayek was a Catholic born and bred, but like Friedman he became an atheist, or at least an agnostic.

Exaggerated Individualism

Thus, according to many libertarians, *freedom is amoral*. Driven by their belief in an exaggerated individualism, they say we find our freedom not in doing good but in doing whatever we think is in our own individual best interest. It follows that they abhor regulation. Should we have rules (or generally respected customs) to prevent us from paying our employees too little, from ruining our competitors by predatory competition, from borrowing our way into crippling debt, or from cutting our costs in ways that damage our environment? No, all such constraints are ruled out since they would allegedly destroy our "freedom." The policies taught by these economists, by dismantling necessary constraints, have permitted us to wreck our economies, abandon the pursuit of social justice, and gravely endanger the health of our planet.

Social Injustice

The more extreme libertarians reject the entire notion of social justice. It is a cardinal point of their thinking that *the market knows best*. Therefore, if our actions in the market system lead to a society of glaring inequalities, such as we see in America today, it is not for us to try to reform or regulate the system in order to achieve a more equitable outcome. "A just society must be the achievement of politics," wrote Benedict XVI (*Deus Caritas Est*, par. 28), but libertarians, even if they are Catholics, are not listening. According to John Paul II, a just society "is not directed against the market, but demands that the market be appropriately controlled" (*Centesimus Annus*, par. 35), but they are not listening to him either. They believe that the market is sacrosanct, that we must not tamper with it. This follows from their notion of freedom as merely noninterference or absence of constraint. We see here how a philosophical error is far from being a purely academic matter; it can have very serious practical consequences.

Hayek likened the free market to a game in which "there is no sense in calling the result just or unjust."[9] He even wrote that he would love to see the phrase *social justice* expunged from the English language.[10] And he paid Catholics a pleasing but wholly unintended compliment: he complained bitterly that "the Roman Catholic Church especially has made the aim of social justice part of its official doctrine."[11]

A Science in Poor Shape

Politicians have little time to think about economic theories; quite naturally, they prefer to leave that to the specialists of the economics profession, who should, logically, know far more about the subject than politicians know. But the science of economics, as we have known it in recent decades, is in poor shape. Indeed, some eminent members of the economics profession have had the courage and the good sense to say so in public.

Thus Paul Krugman, professor at Princeton and a leading *New York Times* columnist, has famously claimed that we are living in a "Dark Age of macroeconomics," having forgotten much wisdom acquired through hard experience in the past.[12]

Amartya Sen complains that "suspicion of the use of ethics in economics has grown" and deplores the "extremely narrow assumption of self-interested behavior."[13] He blames mainstream economists for assuming that people act solely from self-interested motives; in his more generous view, people often act from unselfish or altruistic motives. Therefore, he says, we should be skeptical about conventional economic theories that are based on that cynical and unrealistic assumption of orthodox economics.

Joseph Stiglitz, professor at Princeton and a renowned writer on economics, has severely criticized the ideology of the dogmatic free marketeers: he insists that "the problem is not just with the implementation of the ideas, but with the ideas themselves," and that "the intellectual foundation of *laissez-faire* economics, the idea that markets by themselves will lead to efficient, let alone fair, outcomes has been stripped away."[14]

So politicians who rely on economists for advice are often badly advised. This phenomenon may be described as the *misguided experts effect*.

The Error of Anti-Statism

Free-market economists have gone astray because, in their praiseworthy desire to promote freedom from oppressive governments, they assume that we can solve this problem by drastically cutting back the state and handing most of its duties over to the markets. Governments, they say, should give up trying to regulate our economic behavior. The markets can regulate themselves and our conduct too—just let them do so! Then, hey presto! We shall all be freer, richer, and happier. That, in a nutshell, is the philosophy of the free-market libertarians.

But this anti-statist attitude diverts attention from the age-old and vital question of how to establish and maintain a state that works effectively for the benefit of all its citizens. The founders of the American republic took great pains to devise a political regime that would serve American citizens well. Today, it is not working very well; reforms are needed. But libertarians in general are not much interested in reforming the state. Hayek did indeed propose an ingenious, if eccentric, constitutional reform: every year, voters aged forty-five should elect some of their number to a "legislative assembly" where they would sit for fifteen years.[15] For this assembly, each citizen would vote only once in a lifetime!

Most libertarians, however, just want to castrate the state; they think, with Ludwig von Mises, another dominant Austrian economist, that "liberty is always freedom from the government."[16] As Pope Francis complains (*Evangelii Gaudium*, par. 56), their ideologies "reject the right of states, charged with vigilance for the common good, to exercise any control." Those who basically despise the state are unlikely to be able or willing to endeavor to make it work better.

The market is not a substitute for the state. Free-market theories claim that markets naturally correct their own excesses before these become disastrous; even the brilliant Alan Greenspan, chairman of the US Federal Reserve from 1987 to 2006, was seduced by such arguments. So he refrained from restraining the grossly imprudent behavior of many banks in the years up to 2008. When the banking system exploded, however, Greenspan honorably and with much embarrassment admitted his error.

Distributive Justice

Catholic social teaching emphasizes the doctrine of the *universal destination of goods*, which means that God wishes every human being to have at least a basic sufficiency of this world's goods. Markets alone, however, do not assure this outcome. That fact has been recognized since ancient times; the Law of Moses prescribes obligatory (not voluntary) tithes and other measures to provide for the poor. Today the state is responsible for social security systems to protect our more vulnerable citizens. But many libertarians would like to abolish these systems, or most of them. Hayek grudgingly tolerated "some provision for those threatened by the extremes of indigence or starvation, be it only in the interest of those who require protection against acts of desperation on the part of the needy."[17]

The polity of a democratic state works on the basis of *one person, one vote*. But the market's basis is *one dollar, one vote*. Mises tells us, with emphatic approval, that "the capitalist system is a democracy in which every penny represents a ballot paper."[18] But that is plutocracy, not democracy. Today, the richest 10 percent of Americans receive around 50 percent of total personal incomes (including capital gains) and hold more than 70 percent of total personal wealth.[19] In the markets, therefore, affluent minorities hold the majority of penny "ballot papers"; so they rule. That is a good reason why the markets should not be allowed too much dominance. Hayek was suspicious of political democracy; he feared that it could lead to oppression of minorities by the ruling majority. With Mises and his plutocracy, we have the opposite problem.

Today, the majority of Americans are suffering a kind of oppression by a minority group, the very rich, who contrive to capture most of the benefits of American growth, leaving the rest to put up with static or declining incomes, high unemployment or underemployment, and increasingly precarious, frustrating, and overstressful jobs.

We need to recognize that market and state have quite distinct functions; both are necessary. We should distrust arguments that treat the state with contempt, that propose to abandon most of its functions to unhampered markets. Such a strategy expects the markets to shoulder responsibilities that are beyond their competence and outside their purpose.