

## **Catholic Social Thought and the Economic Problem**

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*There is nothing more useful than to look at the world as it really is — and at the same time look elsewhere for a remedy to its troubles. Leo XIII*

## 1. **Introduction**

Economics is often defined in terms of choices. Most textbooks, in fact, define economics as the study of the allocation of scarce resources between competing wants, clearly emphasizing that choice is fundamental to economics. While I would disagree with such an individualistic conception of economics, I would have to agree with the centrality of choice in economics and the economy. And it is because of this centrality of choice in economics that Catholic Social Thought has much to contribute to our understanding of how the economy operates and how it can be made to better serve human needs and wants. For while mainstream economists are willing, in fact eager, to talk about the issue of choice in the economics, they are often silent on the more fundamental issue of the criteria used in choosing. These issues are often dismissed as "normative" economics, not part of a scientific understanding of the economy. It is the issues of values and the criteria used for choosing that Catholic social thought directly addresses, and it is these issues that need to be understood if economic theory is to be useful in addressing economic issues.

In this presentation we will look some of the most basic concepts in economics. In examining them we will highlight the discretionary aspects of these concepts, that is where choice plays an important role. We will see that standard economic analysis often cannot assist in answering the questions raised by a "choice based" understanding of the economy, because it lacks an acceptable criteria of choice. To do this we will first clearly define what is economics: that is the economic problem and its three solutions. Second we will look at the touchy issue of values in economic analysis, what is usually shielded from serious analysis with the so-called "positive/normative dichotomy." Thirdly we will look at the principles of CST as an alternative foundation for an explicitly normative economics. And lastly, we will look at some examples of how these principles give us a greater insight into some economic areas where choice is particularly important.

## 2. **The Economic Problem: Necessary and Discretionary Aspects**

### *What is Economics?*

Economics is about social provisioning, how societies provide for their material reproduction. This definition, which is different from the common "allocation of scarce resources" definition in most textbooks, is general enough to be applied to all societies, past and present, regardless of their level of economic development or their mode of production. All societies must provide for their material reproduction to remain viable, that is they must solve the economic problem. The economic problem can be broken down into three questions: What to produce? How to carry out production? And to whom to distribute the benefits of production? All three of these questions are deceptively simple. Each question has both necessary and discretionary aspects to how they can be answered. The discretionary aspects to addressing these three questions are vast and provide for the variety of ways these have been answered. As each of these questions has a substantial discretionary element in how they are answered, thus society must choose how to answer them. In order to be clear as to what aspects of the economic problem involve choice and which do not, we will go over each of these three questions in some depth.

### *What to Produce?*

In deciding "**what to produce?**" every society must consider the role production plays in the viability of the social unit. At a minimum, if a society is to maintain the *status quo* (keep that society at its existing levels of income and population) it must produce a level of output which replaces the goods and services consumed in the present time period, as well as any goods that have been used up in the production process. Failure to do so will cause the society to shrink in numbers and/or standard of living. The what to produce question involves deciding not only the level of production, but more importantly the composition of goods and services to be produced (such as food for all or luxury goods for the leisure class).

All societies face both technological and natural constraints on how they solve the what to produce question. Production has to be in accordance with what the society's environment and technology can support. Eskimo societies would not be able to include rice as one of their basic staples of domestic production. Yet even with these constraints, there is still considerable, almost endless, variety in how societies have and can decide what to produce. This is particularly true for an affluent society such as ours. What a society produces is a direct reflection of its dominant values (or the values of those who dominate society).

### *How to Produce.*

The "how to produce?" aspect of the economic problem is essentially a question of the social division of labor and technology. The necessary aspects of this question involve existing technology and human abilities. It is obvious that how the social product will be produced is limited by the available technology, which

includes human knowledge. One cannot produce goods that have not yet been developed, nor use techniques that have not been invented. The social division of labor, however, is not as simple. Nor is the question of choosing between competing technologies. Tasks (jobs) must be assigned in such a manner that the people assigned each task will have the ability to perform them. Only the most primitive society, where all have approximately the same training and abilities, could allow for a random selection process. Yet the element of discretion is great here, for the skills to do most tasks are acquired in the process of doing them and the issue of natural abilities rarely acts as a great constraint. No society could exist for long that needed the "best man for the job" for every job. The Presidency illustrates this point well enough. Societies must come up with a method of allocating economic tasks, which insures that the level of social output is sufficient, but also reflects the social order.

#### *To Whom to Distribute the Social Product.*

How a society distributes the social product also has necessary and discretionary aspects. Social output must be divided in such a manner that enough of the members of society can subsist and reproduce into the next time period. Yet, this is easily achieved, as most societies produce considerably more than the bare subsistence level of production, thus the issue of distribution is closely tied up with the issues of status and power (the allocation of the social surplus). How any society divides up the proverbial "economic pie," as John Stuart Mill has stated (1989, p. 200-1), is largely discretionary:

[T]he Distribution of wealth ... is a matter of human institutions solely. ... [I]n the social state, in every state except total solitude, any [distribution]... can only take place by the consent of society, or rather of those who dispose of its active forces. ... The distribution of wealth, therefore, depends on the laws and customs of society. The rules by which it is determined are what the opinions and feelings of the ruling portion of the community make them, and are very different in different ages and countries; and might be still more different, if mankind so chooses.

Typically only the values of the ruling class are considered in determining the discretionary aspects of this question, however, with the rise of democratic institutions wider and wider circles of voices can influence how society distributes its output. It should be very clear that ethical or moral guidance must play an important role in how society address this issue.

#### **Solutions to the three questions:**

##### *Tradition*

Throughout history there have been three broad solutions to solving the economic problem: tradition; command; and market. The traditional solution is to use the methods and rules of the past to guide your present economic activity. In such a

solution, this year's production will mirror last years. The composition of output will change very little year to year. Under tradition the social division of labor was first set by age and gender, men's and women's work, with children working with their mothers (with the boys joining their fathers when they reach puberty) and in more complex societies with a more extensive division of labor, the system of sons following their fathers occupation is typically followed. This system is socially efficient in that it insures that a sufficient variety of "types" of workers are produced as well as providing for a system of training. (Yet it is weak on individual freedom). Many of us in this room have last names that provided fossilized evidence of this. All such societies typically have rules and customs that determine how the social output is shared.

### *Command*

Under the command solution to the economic problem the answers to the three questions of the economic problem are solved by a central authority deciding: what to produce; how to produce; and to whom to distribute the benefits of production. This too has been a popular solution to the economic problem for it ensures that the questions get answered. The command solution is seen in the building of the Pyramid and medieval castles to the production directives from the central planning authorities under communism. The command solution is often employed during times of dramatic change or necessity. During WWII all the combatants effectively had command economies. The central authority could be benevolent and democratic or malevolent and totalitarian. The goals of the central authority could be in harmony with those of the people (promote the common good) or they could be pursuing their own self aggrandizement (as is typically the case with most ruling classes).

### *Market*

The market solution is often described as a non-solution, as it does not entail any easy answers to the three questions. Under the market solution the forces of supply and demand interact to determine what gets produced, how it is produced and to whom the benefits of production will go to. In this system each individual is supposed to be guided solely by price signals (that are generated by the forces of supply and demand) and their own individual and autonomous preferences and self-interest. As Adam Smith has written (1976, p. 26-7) "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages." Thus self-interest is turned into the public interest, as if "led by an invisible hand to promote an end which was no part of his intention" (1976, p. 456). According to most economists, the market, in its purest form, equates private costs with social costs, private benefit with social benefit.

The market mechanism is quite simple. Each individual is led by a desire to maximize his income or wealth. Income is gained by selling (what Smith calls our "natural propensity to truck, barter and exchange") in the market place. Prices are determined by the interaction of supply and demand, with prices rising if there is less supply than demand (shortages), and falling if supply exceeds demand (surplus). These price changes encourage some economic actors to enter or exit markets, or to increase or decrease production or consumption, thus countering the surplus or shortages, bringing supply and demand into equality (equilibrium). Through this mechanism the many varied and diverse economic activities in a modern economy can be co-ordinated without a central co-ordinator. Many have in fact argued that the market mechanism is the only way to efficiently co-ordinate such an economy.

This explanation of markets suggests that markets are able, on their own, to coordinate the separate behaviors of individuals and creating order out of chaos. This is the myth of the market. Markets are not natural phenomenon, but are socially created. In the real world the market mechanism is best a dealing with small changes to an already existing economic order, providing the signaling function of adjusting relative prices so that a small number of market participants can adjust their behavior. Markets, however, cannot generate this order. All markets are social institutions, embedded in particular societies and in history. They have rules of behavior, laws and customs. These come from tradition. Also they have property rights and methods for enforcing these rules and customs. This comes from command. Without the proper context, markets are inefficient and chaotic, as Russia is currently demonstrating to the world.

#### *Tradition, Command and Market in a Modern Economy*

The pure market solution to the economic problem has not been attempted, for it cannot be attempted. In all the develop capitalist economies there is a mixture of tradition, command and market solutions to the economic problem, as there needs to be. This is not a matter of "liberal" ideology, but due to necessity. Adam Smith knew full well that markets need fully socialized and ethical market participants in order to run efficient, the economic man that inhabits *The Wealth of Nations* has already been "civilized and socialized" in Smith's earlier book *The Theory of Moral Sentiments* (1759). Smith, in fact, noted the important role religion and religious values play in this socialization process. We see tradition playing an active role in our economic life whenever habits, values and culture, not rational self-interested maximization, shape and influence our economic behavior. One example of this is household production. Although economists have attempted to explain the economic activity which takes place within the family as rational and self-interested, these have been extremely unsuccessful. Only an economist can seriously believe that parents "invest" love and attention into their children (assets) because they feel they will get a competitive return in the long run. Gary Becker's economics of the family must be seen as the workings of a dysfunctional family, something one might see on a parody of the Oprah Winfrey show.

Tradition affects all aspects of our economic behavior, most importantly through its setting the "moral" tone for acceptable business behavior.

The role of command in a modern economy is most evident in the role the government plays in modern capitalist economies. The most obvious examples of this can be seen in the recognition that government spending and taxation, as well as regulation, shape how society answers the three questions of the economic problem: influencing what is produced (military goods, mass transportation and other "public goods"); how it is produced (labor and capital taxes influence the firms labor/capital mix, workplace safety laws); and lastly to whom to distribute the benefits of production (tax and social welfare systems; minimum wage laws). But there is also many non-governmental aspects of command in the modern economy. The large multinational enterprises which dominant so much of the worlds economic activity are institutions of economic power, power which comes from their ability to move economic activity out of the competitive marketplace and into their planning systems (Galbraith, 1967). Collectively their power dwarfs that of governments (and sometimes individually, especially in the third world). It should be remembered that the large corporation is an institutional adjustment to the inherent uncertainties of the market and the needs of technology. The inability of markets to generate stability and certainty in the face of continued economic evolution necessitate that much of the economic activities of these enterprises are removed from the competitive marketplace. Taken together, the amount of economic activity which takes place under the heading of tradition and command would greatly exceed that under the heading of the market.

Once we get away from the market myth we can see that the prices and other economic outcomes we observe serve many functions and can be, and are, the result of many different types of activities and are never the result of the summation of autonomous individual preferences and relative scarcities. Most prices are in fact administered, that is the result of a firms pricing policy, and not the sole result of impersonal market forces. Supply and demand considerations are often important in the determination of a firms pricing policy but this is a far cry from the world of Marshall's scissors. Of particular importance is the role of Power, that is which groups have the ability to influence or control their prices. To some extent this is the phenomena of market power, in that market structure can and often does influence market power. But this is also the result of custom, tradition, legislation and bargaining power. The role of power and the existence of administered prices gives us a new perspective on contemporary economic issues, for it highlights another discretionary aspect of the economy.

The importance of seeing markets as social institutions, and of seeing the elements of tradition, command and market solutions to the economic problem, lies in the need to look beyond standard economic solutions to the economic issues the advanced capitalists economies face today and will increasingly face in the future. The conservative economic solution to all economic and social problems is to expand the market (which frequently means removing elements of

tradition and command), while the standard liberal response (often called the knee-jerk response) is to increase the role of the government, that is command. While it is true that not every economic problem requires a government solution, it is equally true that every economic problem can not be solved through the market. Any success at addressing our economic problems will require a creative mixture of tradition, command and market solutions. Our goal cannot be tradition, command and market for their own sake, but what best promotes the common good. In this we must take heed of the wise advice of Pope Leo XIII "There is nothing more useful than to look at the world as it really is — and at the same time look elsewhere for a remedy to its troubles" (O'Brien and Shannon, 1992, p. 20). We must look beyond the economists view of the economy (capitalism) to find solutions to our pressing economic problems.

### 3. **The Role of Values: Positive and Normative Economics**

One of the most obvious objections to a Catholic Social Thought based understanding of the economy is likely to run up against is the claim that it entails religion interfering with science. More than any of the other "social sciences" economics has claimed the mantle of being a "science," on par with the natural sciences. This distinction stems from two attributes of economic theory: its use of mathematical formalism and its claim at being "value-free," that is the claim of being a "positive," and not a "normative" science. The first attribute is easily dismissed. Mathematical formalism has given economics the appearance of being a hard science, but only because it makes economics look like physics. This is no accident, for modern neoclassical economic theory was developed based on mid-nineteenth century physics (Mirowski 1989; Clark 1992). Yet appearances are not reality. The reality is that 1) mathematics is not an empirical science, the use of mathematical formalism in no way insures that economics is "scientific" (Beed 1989); 2) there is nothing in the reality of capitalism that suggests that it is driven by "mathematical" logic or is mechanical. The role of time, money, uncertainty and culture prevent this, among other things. To quote Robert Heilbroner (1979, p. 198) "the prestige accorded to mathematics in economics has given it rigor, but alas, also mortis."

Over a century ago economists started making the distinction between "positive" and "normative" economics. In the first week of classes, every first-year economics student learns of this distinction. "Positive" economics deals with *what is*, and is thus value-free, while "normative" economics deals with *what ought to be*, and thus involves value judgements. It is by adhering to this distinction that economists have made the case that their analysis is "scientific." Wouldn't an economics based on CST be explicitly a "normative" economics? Doesn't this entail the abandonment of the "scientific" economics research program? The short answer to these two questions is an unapologetic and emphatic: yes. An economic theory based on CST would be explicitly a "normative" economic theory. Yet, all economic theory is necessarily normative. An economic theory based on CST

would replace the "utilitarian" and laissez-faire values and ideology with the principles and values of CST.

### *Normative/Positive Distinction*

A detailed examination of the positive/normative distinction is beyond the scope of this paper, but a few points need to be made. First, it is a totally false dichotomy, and has been recognized as such by methodologists for some time. As Gunnar Myrdal long ago noted, all economic theory and observation are value laden and cannot help being such (Myrdal 1954; 1958). Even the simplest observation requires a viewpoint from which to observe, and this viewpoint is not and cannot be based solely on past "objective" observation. All observation requires theory to help bring "order" to the chaos of daily life. We need a theoretical system to assimilate and give meaning to our observations. Observation without theory is much like the common reaction when a lifelong blind person is given the gift of sight. It is a very frightening experience for them for they have no way of assimilating the barrage of visual stimuli. Theories and models help us to categorize reality, but these categories are humanly created and are always based on value judgements. This is not a radical point, and most, if not all, philosophers and historians of science would readily accept it. Only economists seem, as a group, to reject this fact.

Just as all observation requires theory, all theories require value judgements. At the most basic level, these are the judgements of what to observe and what to theorize about. A theory of unemployment must first start by making the decision that it needs theoretical explanation and second it must define what is unemployment, both are blatantly value-laden (and political) activities. Furthermore, what methods to use to investigate this phenomenon also involves value judgements, as does the critical criteria about what will be accepted as the "final term" in the analysis, the bases of what arguments will or will not be accepted. However, values and value judgements enter into theory construction on the ground floor by giving the theorist the "vision" of the reality they are attempting to explain. This "vision" is pre-analytical in the sense that it exists before theoretical activity takes place. It comes from the theorist's philosophical preconceptions and is often unknown to the theorist, as it is accepted as true without itself being subject to investigation. Most important, it is most often a reflection of the theorist's view of the "ideal" of that they are investigating. Thus in social theory the "vision" is a mere reflection, some times clear, sometimes distorted, of the theorist opinion of the ideal society. Adam Smith's "society of perfect liberty" is the most obvious example of this point, but we could easily use Jeremy Bentham's "Utilitarianism," or Walras' system of general equilibrium. In fact these three "visions" make up much of the neoclassical economist's preconceptions of the economy and society. They are accepted without investigation or inquiry. All legitimate (accepted by the mainstream of the profession) theory must be in conformity with these presuppositions. They provide the definition of society, of human nature and the moral justification of a

market economy. And all have been shown quite clearly to be heavily based on values and value judgements. The ideal always influences the real. The ideal provides the framework on how we will understand the real. And since humans create their reality, and since they strive for the ideal, the ideal, as a goal, necessarily influences the development of the real.

The extent to which ideology and "values" have influenced the development of economic theory over its history has been well documented and need not be repeated here (see especially Myrdal, 1954). All economics, as with all social science, is normative and cannot help being otherwise. The claim of the "positive" scientific label is more an attempt to dress up one set of value judgements as "scientific" so that they do not get examined and are not subject to criticism.

Along with the abandonment of the false claim of being "value-free," an economics based on CST will also lose much of the pretense and false appearance of being a "science" on par with the natural sciences.

#### **4. Values Underlying Neoclassical Economics**

Neoclassical economic theory's lack of historical and social context is justified in by their belief that economic phenomenon is in essence "natural" and not "social," that is, the result of natural forces and laws (scarcity and human nature) and not the end result of social activity. The laws and theories that make up neoclassical economic theory are consider natural laws, exposing invariant economic forces. Yet neoclassical economic theory, like all social theory, is built upon value judgements and premisses.

##### *Value and Utility as the Good*

Underlying neoclassical economic theory is the marginal utility theory of value. The purpose of value theory in the history of economics is grossly misunderstood. For most economists it is merely an archaic term for price theory, yet value theory is at the heart of all economic theory. As Robert Heilbroner has noted, the theory of value is really about the underlying order of the economy and society. Prices are at best a rather imperfect manifestation of this order, even under ideal conditions, but they are of interest only to the extent that they reflect this order. One of the most important aspects of this order is the "ideals" of a society, their conception of the "good." Value theory is an expression of what the particular society, or those who are its active force, value. Specifically, what they value enough to carry out in their actions and adjust their behavior to bring about. In this case, as in all others, the real chases after the ideal.

"In the classical and much of the neoclassical tradition in economics, the maximal satisfaction of wants, notably consumer wants, has been and remains the basic criterion of judgement, the standard of value, the basis on which to distinguish between good and bad, proper and improper, and desirable and undesirable" (Tool

1986, p. 89). Value comes from and is measured by utility. The theory of marginal utility serves both of the functions of value theory: the ordering properties of society and the legitimation and evaluation of ends (Clark 1995). For the neoclassical economist something has value only in so far as it delivers utility to someone through the marketplace. The marketplace sums the total individual utilities of consumers and balances these against the disutilities of producers (demand and supply) and reaches an equilibrium when these are equal. The underlying order of the market (which for neoclassical economics is society) is an expression of society's values. Economists often note that utility can be had outside of market transactions, but this is seen as a market failure and leads to inefficiencies. Thus they view the solution to all problems, economic or otherwise, as involving the establishment of property rights and a market for exchange.

If a society is motivated solely by the search for utility through the marketplace, then neoclassical economics can be a realistic depiction of such a society (although why anyone would want to live in such a place is beyond me). If neoclassical economic theory comes to dominate a society, establishing its vision and setting its values, then the society will start to reflect the neoclassical world. However, it can never fully reflect such a world for such a social order is not viable. As James Gordley has recently demonstrated, the world of neoclassical economic theory must, in order to work as an actual economy and society, be populated with citizens who religiously follow the four virtues (prudence, justice, temperance and courage) highlighted in the work of Aristotle and St. Thomas. The problem for neoclassical economic theory is that neither "markets" as a socializing institution or neoclassical economic theory as an ideology or "religion" produces such people. Furthermore, their emphasis on greed as a "good" eats away at such virtues. Thus neoclassical economic theory becomes a contributory problem for social order for it glorifies and legitimates anti-social behavior.

### *Human Nature*

The Neoclassical view of human nature is an outgrowth of their theory of value. This view of human nature is frequently called "rational economic man". Although the vast majority of economists will quickly admit that it is a narrow depiction of human nature, overly simplistic and often presented (and accepted) as a caricature, they would also nevertheless claim that it is essential for an understanding of economic activity and market forces.

Economic theory conceives of human nature in utilitarian terms, as a rational utility maximizer, driven solely by self-interest, chained, as Jeremy Bentham has so vividly described, to the twin pillars of pain and pleasure. This mechanical view of human nature comes from, and is necessary for, the mechanistic view of society. This "hedonistic" view of human nature was best characterized by Thorstein Veblen (1919, p. 73-74) when he wrote:

The hedonistic conception of man is that of a lightning calculator of pleasures and pains, who oscillates like a homogenous globule of desire of happiness under the impulse of stimuli that shift him about the area, but leave him intact. He is neither antecedent nor antecedent nor consequent. He is an isolated, definitive human datum, in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or another. Self-imposed in elemental space, he spins symmetrically about his own spiritual axis until the parallelogram of forces bears down upon him, whereupon he follows the line of the resultant. When the force of the impact is spent, he comes to rest, a self-contained globule of desire as before.

Man seeks pleasure and avoids pain, and every decision comes down to a calculus of costs and benefits, pains and pleasures. Economists will frequently admit that man may be driven by other motives outside their economic life, yet they claim that this depiction of human nature is very useful for developing economic models and theories to explain economic activity. Their deep belief in this view of human nature can be seen by their willingness to use this conception of economic man to explain non-economic behavior (this being the bases of economic imperialism, the attempt to explain all social phenomena via economic theory), and in their exclusion of other motives to impinge on the economic realm.

One reason economist's hold this view of human nature, as Veblen pointed out long ago, is that their view of society and the economy as equilibrium systems requires deterministic and atomistic behavior, as does their mathematical models. Rational economic man has no free will. In one of the great ironies of intellectual history, the theory of free markets based on free choice requires that the individuals that make up the economy and society display deterministic behavior, that is have no freedom of choice. If one wants to show that a market economy produces optimal equilibrium outcomes, than one has to exclude human choice.

This idea of a universal human nature causes neoclassical economist to expect that policy carried out in fully capitalistic societies will work similarly in post socialistic societies (for the people will behave the same way). They did not fully realize that reacting to market signals in an efficient manner is a socialized response, not fully realized in the most developed capitalistic economy, but non-existent in non-capitalistic economies.

### *Vision of Society*

The atomistic and hedonistic view of human nature leads to a mechanical and individualistic view of society. The individualistic view of society has its roots in the mechanical view of nature, with Isaac Newton as its greatest proponent. In this approach, society is conceived as a collection of individuals. Only the individuals really exist, society as a separate entity is a mental fiction. Mechanics and physics are the primary source of metaphors for displacement into economics for this view of society. Mechanistic social theorists have looked to the individual

as the "final term," in that all explanations must be in terms of individual actions and motives. This adoption of "methodological individualism" stems from the belief that inherent in human nature are the drives and propensities which will produce social order (equilibrium) and not chaos.

The mechanistic view of society has dominated both classical and neoclassical economic theory. At one level we see this in the extensive use of mechanical and physics analogies and metaphors. The market equilibrium story is a displacement of Newtonian mechanics onto economic activity, with the resultant equilibrium being determined by the balance of individual forces. It is also seen in the necessity to explain all social phenomena as the result of individual human propensities. The net result of adopting the mechanistic view of society is that it forces the theorist to exclude historical and social context from their analysis. The most extreme form of this type of economic analysis is modern general equilibrium theory, in which neither history nor social context exist. In fact, neoclassical economists see this as a strength of their approach. As Werner Stark (1962, p. 56-7) has noted: "If the social order is likened to an equilibrium system, ... then it is almost certain to be interpreted in a non historical and unhistorical spirit. An equilibrium has no history; its laws do not change with the centuries. The formal equations in which it can be described are of timeless validity, as all purely quantitative propositions must be. Rational mechanics is a branch of mathematics and its students glory in the fact: those social theorists who wanted to model [social theory] on rational mechanics [cannot] admit the reality of developmental change." As we will see, the CST tradition has been extremely critical of the individualism which is at the heart of orthodox economics and the laissez faire philosophy it supports, and rejects this view of human nature and society.

### *Efficiency*

There are two working conceptions of efficiency in neoclassical economics, a micro and a macro. The micro conception is the Pareto principle. This is the notion that any change in the holding of commodities (including money) that makes at least one person worse off is inefficient. This is so because, under the assumptions of neoclassical economics, no one would make such an exchange voluntarily. Furthermore, since neoclassical economists do not allow for interpersonal comparisons of utility. As we would expect in neoclassical analysis, no mention is made as to the original distribution of goods and incomes. All are considered outside the purview of their analysis and thus, by default, all distributions are given equal moral weight. A small number of people or families owning all or almost all of the commodities with everyone else starving or nearly starving is morally equivalent to everyone enjoying a decent standard of living, equal in the sense that neoclassical economic theory is indifferent between the two, that is, cannot, within neoclassical economic theory, chose one over the other..

The neoclassical theory of efficiency is operationalized in the macro sense in the concept of Gross Domestic Product — the price of aggregate output. Here the final criteria is: does it produce economic growth, i.e. increases in GDP. This is the most important criteria for neoclassical theory, for it measures utility consumed in the market place, the neoclassical conception of the "good." The limitations of this are well known or at least should be. Yet it is worth pointing out that much of the United States economic growth in the past 30 years is merely social decay by another name, as pollution, the decline of the family, crime and other social ills have generated vast increases in market transactions, but little feeling of social improvement.

The limitations of neoclassical economic theory for understanding and guiding economies in transition can be summed up as such: it cannot include historical and social context and it has a morally bankrupt and socially damaging conception of the "good." It therefore cannot understand the present and cannot help in moving towards a desirable future. We must look elsewhere.

## **5. An Alternative Vision: The Perspective from Catholic Social Thought**

Unlike neoclassical economic theory, the Catholic social thought tradition openly and explicitly states its vision and its value judgements. They are not hidden preconceptions, but instead celebrated pillars upon which all social formations and analysis need to be built. It is a vision grounded in the Old Testament, come to life in the Gospels and it provides the explicit underpinning for the various Encyclicals and other Church documents that make up the Catholic social thought tradition. At the heart of this "vision" is, as Sean Healy and Brigid Reynolds have written, the belief that "God speaks to every reality. Whatever we are looking at whether it is an issue such as world hunger ... or an economic system such as Capitalism, God does have something to say to that reality. Our world either is or is not in accord with God's ideal for it. Consequently it is important for us to come to know what God is saying to whatever reality we are examining. God speaks to these issues or situations in various ways: through the Bible, through the teachings of His Church, through the signs of the times and through the prophets who interpret those signs" (Healy and Reynolds, 1983, p. 5-6).

One bedrock value of this tradition is the assertion of the dignity of all humans. "The dignity of the human person, realized in community with others, is the criterion against which all aspects of economic life must be measured" (*Economic Justice for All* in O'Brien and Shannon, 1992, p. 584). This is an assertion that runs through the Catholic social thought tradition and its significance cannot be understated, for it calls for a view of society which is not mechanistic and individualistic, as is neoclassical economic theory, or completely organic, as is vulgar Marxism. Both the individual and the community are interconnected and neither can be reduced to the other.

This interconnectedness is at the core of the idea of the common good. Since human nature is defined as social, the welfare of the each individual is connected with that of the community. The common good is not an equilibrium state of affairs. It is a process. As David Hollenbach has said "The common good is a social reality in which all persons should share through their participation in it. It is not simply the arithmetic aggregate of individual goods suggested by the utilitarian formula 'the greatest good for the greatest number.' In a utilitarian understanding, increased aggregate social good (e.g., gross national product) is compatible with the exclusion of some persons from participation in it. Emphasis on the participation of all in the common good is particularly important" (Hollenbach, 1994, p. 193). Pope John XXIII defined the common good as that which "embraces the sum total of those conditions of social living, whereby men are enabled more fully and more readily to achieve their own perfection" (*Mater et Magistra*, 65). This interdependence was particularly highlighted in the Vatican II document, *Gaudium et Spes*: "Man's social nature makes it evident that the progress of the human person and the advance of society itself hinge on each other. From the beginning, the subject, and the goal of all social institutions is and must be the human person, which for its part and by its very nature stands completely in need of social life." John Paul II has recently emphasized that concern for the environment is an essential aspect of the common good, for the obvious reason that man needs more than community to flourish.

In *Economic Justice for All*, the US Bishops state six principles which must be followed if economic policy is to promote the common good: "1) every economic decision and institution must be judged in light of whether it protects or undermines the dignity of the human person; 2) human dignity can be realized and protected only in community; 3) all people have a right to participate in the economic life of society; 4) all members of society have a special obligation to the poor and vulnerable; 5) human rights are the minimum condition for life in community; and 6) society as a whole, acting through public and private institutions, has the moral responsibility to enhance human dignity and protect human rights" (O'Brien and Shannon, 1992, p. 575).

Economic theory defines efficiency in terms of market transactions and outcomes, profit and loss, underpinned by the mythical entities of utility and disutility. The Catholic social thought tradition asserts a different yardstick. Yet it is not anti-growth or hostile to economic life (both common charges). It is economic growth as an end that is objected to, not economic growth as a means. CST offers a different "vision" of economic development and progress (see *Populorum Progressio*). To follow productivity as a goal, without regard for the context of economic activity and its human dimension, is to follow a false god. As the U. S. Bishops have stated:

Productivity is essential if the community is to have the resources to serve the well-being of all. Productivity, however, cannot be measured solely by its output in goods and services. Patterns of production must also be measured in light of

their impact on the fulfillment of basic needs, employment levels, patterns of discrimination, environmental quality and sense of community (O'Brien and Shannon, 1992, p. 595).

The key distinction that Catholic social thought makes is that humans can never be treated as means to an end, for they are the ends. Thus the treatment of workers as mere commodities to be used to maximize profits is objectionable. We can see a clear statement of this view in *Rerum Novarum*:

The following duties bind the wealthy owner and the employer: not to look upon their work-people as their bondsmen but to respect in every person his or her dignity and worth. ... They are reminded that ... to misuse people as though they were things in the pursuit of gain ... is truly shameful and inhuman. ... Furthermore, employers must never tax their work-people beyond their strength, or employ them in work unsuited to their sex and age. Their great and principal duty is to give every one what is just. ... to gather one's profit out of the need of another, is condemned by all laws human and divine. . . . Lastly, the rich must religiously refrain from cutting down the workers' earnings, whether by force, fraud or by unjust dealings ... (RN 16-17) (quoted in Dorr, 1992, p. 24).

And this theme is continued in numerous subsequent documents. Thus for Catholic social thought the concept of efficiency must be defined in terms of the meeting of human needs, regardless of whether these needs are expressed in the market. Furthermore, these needs are not limited to material ones and include the need to participate.

The Catholic social thought tradition also has a very different conception of equity. The basis of equity in Catholic social thought is the common gift from God of the earth. Thus the minimum equity criteria is that all have a share in this gift to so that each will meet their basic minimum needs. "God destined the earth and all that it contains for the use of all people and peoples. Furthermore, the right to have a share of earthly goods sufficient for oneself and one's family belongs to everyone" (Vatican II, in Dorr, 1992, p. 154). This is not a claim for perfect equality, but that all are insured a decent standard of living. This claim is also put forward in the United Nations Universal Declaration of Human Rights.

The Catholic social thought tradition also notes that greater equity is to the benefit of both rich and poor and that there are gains to society from greater equity. "Excessive economic and social inequalities within the one human family, between individuals or between peoples, give rise to scandal, and are contrary to social justice, to equity, and to the dignity of the human person, as well as to peace within society and at the international level" (*Gaudium et Spes*, 29.3 in Dorr, p. 158). This is not an original observation to the Catholic social thought tradition, Adam Smith recognized it as well.

Catholic social thought has, for the most part, followed a two pronged attack on social justice issues. On the one hand it has noted the many structural issues that lead to the abuse of human dignity and the many social inequities. These issues require structural reform, most often in the form of national or international regulation. Here we would find policies like minimum wage legislation and better terms of trade for the developing countries. Yet equally important for the tradition is the changing of the hearts of individuals. Catholic social thought calls on each of us to look at every person as a fellow child of God, to see Christ in them. This is true for us in our business lives, as owners, managers, workers, consumers and voters, thus it is a call for a new attitude in the micro-aspects of our economic lives.

## 6. **Some Principles of CST Applied to Economics.**

The Catholic social thought tradition does not offer an alternative economic theory from which to analyze and understand the economic problem. What it offers is a "vision" from which to carry out such a task, a moral compass to direct researchers and policy makers towards promoting a just society. Many of the concepts developed in the Catholic social thought tradition are of particular interest for the economic problem. This is especially the case since the Catholic social thought tradition originated in the Church's reflection on economic and social issues. Of particular importance are the principles of : Subsidiarity; the social nature of Property; Priority of Labor; Solidarity; and the Option for the Poor. This section will briefly review these concepts and what they offer to the understanding of the economic problem.

### *Subsidiarity*

The principle of subsidiarity relates to the social character of the individual and their natural right to associate with others in general and to organize in the form of groups in particular. It directly contradicts the laissez-faire view of society being merely a collection of separate individuals. A major thrust of the principle of subsidiarity has been the contention that if a task can be equally carried out by small or large organizations, the smaller one is preferable. It does not assert that larger organizations, such as the state, have no role to play, just that the state should only carry out activities that are beyond the capabilities of smaller organizations. "In *Quadragesimo anno* Pius XI explicitly makes the principle of subsidiarity the guiding norm upon which the social order is to be restored: 'That most weighty principle, which cannot be set aside or changed, remains fixed and unshaken in social philosophy. 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 or higher association what lesser and subordinate organizations can do. For every social activity ought of its very nature to furnish help to the members of the body social, and never destroy and absorb them" (quoted in Allsopp, 1994, p. 928). The underpinning of the principle

of subsidiarity is the idea that not only are efficient outcomes necessary, but so also is the process by which they are achieved — the means and ends cannot be separated. Specifically, human dignity asserts that humans participate in their culture and society as fully as possible. Subsidiarity requires that the decisions and activities that affect peoples lives should be carried out by organizations as close to the individuals affected as can be efficiently accomplished. Obviously activities like an aerospace program cannot be carried out at the community level, yet much of what the state does, as well as large scale private enterprises can be as effectively (and in many cases more effectively) be carried out by smaller organizations, with greater social participation. The principle of subsidiarity legitimates labor unions and community groups because they allow for greater social participation. The baring the principle of subsidiarity has for the "how to produce" question should be obvious to all. It tells us that mere efficiency defined as lowest costs of production, cannot be the sole criteria in making this decision.

### *Property*

The understanding of property in the Catholic social thought tradition is particularly insightful for modern capitalist economics, particularly their failings. This tradition relies heavily of the understanding of property developed by St. Thomas Aquinas. Three themes are strong and constant in this tradition: 1) the necessity to protect private property; 2) the requirement that property be used to promote the common good and 3) the social nature of property. Aquinas' defense of private property is pragmatic. Property tends to be used more efficiently towards the common good when it is held by individuals. According to Aquinas "the institution of private property is 'legitimate,' and 'indeed necessary for human life' inasmuch as (a) persons are more likely to care for what they possess themselves, (b) 'human affairs are more efficiently organized if the proper care of each thing is an individual responsibility,' and (3) 'peace is better preserved' if persons are content with their own property" (O'Neill, 1994, p. 787). Yet the privateness of property does not remove it from the community, for its must be used for the promotion of the common good. Aquinas argues that it is not immoral for a starving man to steal food to feed himself or his family, in times of scarcity all property becomes common. The defense of private property and the responsibility to use property for the common good go hand in hand as they both stem from the requirement that property be used in a manner that furthers the well being of all in society.

The Catholic social thought tradition recognizes something that neoclassical economic theory ignores almost completely, the social nature of property. The right to private property comes from and through the community and it is both right and reasonable that the community have its interests promoted and protected in this institution. As John Paul II has written, "It is necessary to state once more the characteristic principle of Christian social doctrine: the goods of this world are *originally meant for all*. The right to private property is *valid and necessary*, but it does not nullify the value of this principle. Private property, in fact, is under a

‘social mortgage,’ which means that it has an intrinsically social function, based upon and justified precisely by the principle of the universal destination of goods" (*Sollicitudo Rei Socialis*, 42). This has bearing on the question of the distribution of income.

### *Solidarity, Priority of Labor and the Option for the Poor*

The Catholic social thought tradition has been, in many ways, an attempt to find an alternative to the excessive individualism and alienation of laissez-faire capitalism and the depersonalization and subordination of the individual under communism. It does this by asserting the true nature of society and the individual in a way that protects the dignity of each human and the promotion of the common good. An essential component of this is the idea of solidarity. Solidarity is more than a feeling of sympathy or compassion with the poor and marginalized. It is, as John Paul II has said "a firm and persevering determination to commit oneself to the common good."

"Catholic solidarity" writes Matthew Lamb, "aimed at transposing pre-modern understandings of natural law, of human beings as essentially social, and of society itself as organic and cooperative, into the modern contexts of industrialized societies with complex exchange economies" (Lamb, 1994, p. 908).

Solidarity calls us to enter into the experience and reality of the "masses", which in a capitalist economy means the workers. Growing out of the idea of solidarity is John Paul II's assertion of the priority of labor. "We must first of all recall a principle that has always been taught by the church: the principle of the priority of labor over capital. This principle directly concerns the process of production: In this process labor is always a primary efficient cause, while capital, the whole collection of means of production, remains a mere instrument or instrumental cause. This principle is an evident truth that emerges from the whole of man's historical experience" (*Laborem Exercens*, 12). In many ways John Paul II's understanding of labor and capital is similar to that of Adam Smith and the classical economists, in that capital is seen as past labor. The assertion of the priority of labor over capital is an assertion that people, in this case workers, should not be treated as mere means to an end (the capitalist earning profits). Workers create real wealth. Capitalists contribute to the extent that they contribute their capital, but their contribution comes from past labor, either their own through savings, or of others through their earning of profits. A third source of "wealth" or capital comes from finance, a topic which has been neglected in the Catholic social thought tradition. Part of the contributions made by finance stems from the linking up of savers and investors, and here again it is easy to see how labor has created capital. Yet in a modern economy much of the efforts of finance are speculative, with the wealth being created out of thin air (as happens when one has an elastic money supply) or through paper profits which create wealth only because the general consensus of the markets is that something will be worth more in the future. Much of Bill Gates' wealth is of this sort. The net worth of the

assets held by Microsoft are a small fraction of their "market" value, which means that they can disappear as quickly as they have appeared. Much of the financial activity going on in the advanced capitalist economies, with the United States as the leading example, involves financial manipulations, such as mergers and downsizing, leveraged buyout and financial re-engineering, derivatives and junk bonds are geared towards making money, with not even the intention of adding to the real wealth of society, either its productive capabilities, or even more important, the well being of its members. Furthermore, not only is much of this activity not helpful to the economy, it is often quite damaging. This is especially the case with currency speculators. As a group they have the ability to override government policy and collapse an economy in a very short time period. The state has a responsibility that such efforts and resources be directed towards the common good.

This leads us to our last principle of Catholic social thought that we will analyze here: the option for the poor. All the principles of Catholic social thought are grounded in the Bible and the message of Jesus, and the option for the poor is a quintessential example. The option for the poor stems from Jesus' injunction that we will be judged as individuals and society based on how we have treated the "least of our brothers" (Matthew 25). Donol Dorr (1992, p. 3) has noted that there are two aspects of this principle, one at the level of the individual and one at the level of society.

An option for the poor is a commitment by individual Christians and the Christian community at every level to engage actively in a struggle to overcome the social injustices which mar our world. To be genuine it must come from a real experience of solidarity with the victims of our society. This means that one aspect of an option for the poor has to do with sharing in some degree in the lives, sorrows, joys, hopes, and fears of those who are on the margins of society. Without this, the attempt to serve the interests of 'the poor' will be patronizing—and it will make them feel more powerless and dependent than ever. But an option for the poor is not primarily the choice of a less affluent life-style by individuals or groups. It is a commitment to resist the structural injustice which marks our world. The person who makes such an option is undertaking to work to change the unjust economic, social and political structures which determine how power and resources are shared out in the world .... The aim is to bring about a more just society.

Adopting an option for the poor, in terms of economics, means, among other things, that our first measure of progress is how those on the bottom of the economic ladder are affected. It also means that those at the bottom must be allowed to become agents of their own destinies and be given the support and tools to bring about the transformation of their reality. Thus it is not merely placing them on the dole, or in public housing, or the comprehensive state support that used to be available in the formerly communist countries, but allowing for full social participation, full citizenship. It means not following the dictates of the

IMF when they tell you that you have to impoverish millions to pay back loans to rich countries (especially since the loans were not used for their benefit).

7. **Conclusion** In deciding how to solve the economic problem, society cannot take a "value-free" stance. It must explicitly state its values as goals to be strived for, as both ends and means. CST offers this necessary moral vision. Robert Heilbroner once said that the market is a useful servant but a terrible master. By using CST as a moral compass we can have the servant serve the master, instead of the current situation of the reverse.

How we solve the economic problem is based on our "value". While the values of the marketplace dominate every aspect of our society at present, they as yet do not dominate our vision of the good and our ideals. These are, for the most part, still the Gospel values and ideals. We must reassert these ideals in our analysis of the economy and expose the morally lacking "ideals" that dominate economic analysis. Then we will be able to develop a useful economic theory (understand the world as it is) that will help us to create a more just world (looking elsewhere for the remedy).

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