

Catholic Social Thought and Economic Theory:

Some Preliminary Reflections

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I. Introduction

The purpose of what I like to call the Catholic Social Thought and Management Project is to develop a business education curriculum which not only has as its foundation the values and moral vision of the Catholic Social Thought (CST) tradition, but which is permeated throughout with these values and this moral vision. It is not enough merely to add these values to the standard business education, such as having the business ethics material grounded in CST. We must rethink what we teach as a business education, specifically, the various disciplines that make-up the standard business education: Accounting; Business Law; Economics; Finance; Management; and Marketing. The extent to which these disciplines will be affected by CST will vary considerably, and certain aspects will remain unchanged (such as the mathematics used in Accounting), but all will require a reexamination in light of CST. The purpose of this paper is to start this process in the field of economic theory.

Economic theory and CST have had an uneasy relationship. Economic conditions prompted much of the CST literature, the most fundamental being the change in the structure of social life caused by the Industrial Revolution. Yet many concerns raised by

CST, such as the conditions of workers, inequalities of wealth and incomes, mass unemployment, the list could go on and on, were in fact explained away or ignored by the dominant economic orthodoxy that existed at the time of each specific Papal encyclical. If one recognizes that the various problems mentioned in the Papal encyclicals exist, then one of these traditions must be out of touch with reality. The conflict between CST and economic orthodoxy stems from either the total ignorance of the CST tradition of the correct principles of economics, that is the Popes do not understand how the economy works, or economic theory has not adequately fulfilled its charge: the explanation of how the economy functions. This, of course, means that the economists do not understand how the economy functions. Economists, as we might expect, take the position that the Popes (and the Bishops) are writing outside their fields of expertise, that they just do not understand economic theory. History, however, has been much kinder to the insights of CST than it has been to economic theory. The call for reforms and state intervention to help workers and the poor, explicit in CST, where eventually institutionalized in the welfare state, support for labor unions and the mixed economy, and contrary to the predictions of doom by the economists of the time, the era of welfare state capitalism has been the most prosperous in human history. One reason that the CST tradition still attracts attention is that economists have been wrong so often. This paper argues that it is the economists who have been wrong, and that if economic theory would like to be more relevant it should adopt some of the insights of CST.

This paper will look at four issues raised in the rethinking of economic theory in light of CST: the relationship between the real and the ideal; conception of society; conception of human nature; and lastly, the conception of progress. The goal is to highlight how these fundamental aspects of economic theory (or any social theory) will be affected by CST. Further work will be required to show how such major changes to the foundations of economic theory will affect the theoretical structure which dominates how the economy is understood and explained.

II. The Real and Ideal: The False Positive/Normative Dichotomy.

One of the most obvious objections that the Catholic Social Thought and Management project is likely to run up against is the claim that it entails religion interfering with science. The various individual business disciplines have spent the better part of this century attempting to understand and explain their respective “fields” in a “scientific” manner, with their theories and methodologies achieving a certain, though admittedly limited, status as “science.” No business discipline has taken the ideal of emulating the natural sciences as far as economic theory has, and it is something economists take considerable pride in.

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? Wouldn’t an economic theory explicitly based on CST be more wishful thinking than hard and unbiased analysis? The short answer to the first two questions is an unapologetic and emphatic: yes. An economic theory based on CST would be explicitly a “normative” economic theory. As we see below, all economic theory is necessarily normative. An economic theory based on CST would replace the “utilitarian” and laissez-faire values and ideology with the six principles clearly stated in the U. S. Bishop’s “Economic Justice for All”: “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). Furthermore, the abandonment of the pretense of being a “science” on par with the natural science (that is a value-free, objective science) and the explicit adoption of a normative stance will allow economic theory to become more honest and realistic. It will thus lead to a better pursuit of the truth and make for better economics (meaning greater progress in our understanding of the economy). This answers the third question. An economic theory based on CST would provide a more realistic picture of the economy and society and thus will allow for better and more accurate economic theorizing.

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, the 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, 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. Much of the appearance of being scientific comes from the emulation of the natural sciences, especially with its mathematical rigor. This whole research program requires a view of society and the individual that, we will see below, is contrary to that of CST. This, however, is not much of a sacrifice, for what will be lost is not of much value. It has not added too much to our understanding of how our economy functions. It has been more a barrier to the attempt to understand the economy than a useful tool.

An economic theory based on CST could not sustain a view of society that denies the necessity of community, a view of human nature that is more a description of a social pathology than anything else (and which is almost universally rejected by psychologists), and a conception of progress that is not sustainable. Thus it will help to provide economic theory with a foundation by which we can better understand where we are and better direct us to where we want to go.

III. Means and Ends

The separation of “ends” and “means” is a variation in the positive/normative dichotomy. Economists define ends as goals, in which value judgements have a legitimate role, and means as methods for achieving these goals. Here there is no room for value judgements. Here the analysis is value neutral. Yet, similar to the positive/normative dichotomy, the separation of ends and means does not hold up to philosophical scrutiny. Just as positive statements cannot be made without the assistance of normative judgements, neither can ends be separated from means. Ends are merely the working out of means and means are continually shaped by goals (ends). The age-old question: “Does the end justify the means?” can only be answered by stating that the two are inseparable? We separate them in our minds, partly to aid abstract thought (theorizing) and partly to rationalize (justify) our actions. In reality we must admit their interconnectedness.

In economic policy we frequently rely on cruel means (market forces) to achieve what we think are desirable ends (market equilibrium). An example of this currently being played out in the developed capitalist economies with the deregulation of labor markets. The goal is the reduction of unemployment (market clearing in the labor market). The means is greater wage flexibility (lower wages) and reduced social protection (elimination of the welfare state). All will agree that the reduction in wages and social protection will be painful on workers and the poor, and most will agree that reducing unemployment is a desirable end. Leaving aside the validity of this approach to reducing unemployment (see Clark 1998 for a critique of it), it is only by separating means and ends that one could justify such a policy. Furthermore, it is only by limiting “values” to the formation of ends, and excluding them from the discussion of means (at least from the scientific analysis of means) that the suffering caused by such a policy is ignored. An economic theory that does not separate ends and means could not undertake such an analysis, or reach such conclusions.

IV. Conceptions of Society

In the history of political economy (and social theory) there have been three basic conceptions of what is society: it is seen as the mechanical interaction of individuals; as an organic whole; or as a process (Stark 1962; Clark 1992, chapter 2).

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 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 that 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 (Clark 1992). The most extreme form of this type of economic analysis is modern general equilibrium theory, in which neither history nor social context exists. In fact, neoclassical economists' see this as a strength of their approach, and they are right if one is looking for invariant economic laws. 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." 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. The primary objection is that such an approach has no conception of the common good, in fact could not even conceive of something which could be called the common good. "Human life is life in community. Catholic social teaching proposes several complementary perspectives that show how moral responsibility and duties in the economic sphere are rooted in this call to community" (O'Brien and Shannon, 1992, p. 594).

The view of society as an organism is an extension of the Greek view of nature. The Greek's explained and conceptualized nature by displacing the concept of the human body onto nature, thus nature was understood as a sort of body. Under this approach, the individual units are understood in relation to their place or function in the whole. Society is seen as a unity, as a single entity, not as a collection of entities. Individuals are much like body parts, understood according to their function in the over all society. The most developed organic economic theory is Marxian economics. This too is rejected in the CST tradition, for it has no provisions for protecting the dignity of the individual.

While both the organic and mechanistic view of society have yielded significant insights into certain aspect of social phenomena, these insights necessarily have always been partial and incomplete. Mechanistic theories are often criticized as under-determined, while organic theories are seen as over-determined. Both criticisms have merit, for organic social thought ignores free will, while mechanistic social thought ignores culture. The essential limitation of each of these approaches stems from the belief that the concepts of individual and society can be separated; that a human individual can exist independent of society, or that society is somehow independent of the individual members. "Each and every social formation is at the same time a multiplicity and a unity. We cannot speak of a society unless there are before us several human beings, and unless the lives of these human beings are in some way interconnected and interrelated, i.e., constitute a unity of some kind" (Stark 1962, p. 1).

This brings us to the third definition: society as a process. Originally inspired by the evolutionary view of nature, the society as a process definition of society attempts to do justice “both to the real integration of social order and to the real independence of the individuals comprised by it” (Ibid.). Such an approach tries to understand the interaction between individuals and society, cognizant of the fact that the resulting behavior is something quite different from what is observed in the natural sciences. As Stark often noted, the natural sciences attempt to understand a reality man finds, whereas the social sciences try to understand a reality man makes, a reality that is constantly changing.

The CST tradition, with its dual consideration of protecting the dignity of the individual and promoting the common good takes an implicit “society as a process” view. “The dignity of the human person, realized in community with others, is the criterion against which all aspects of economic life must be measured” (Ibid., p. 584).

CST has criticized the excessive individualism of free market economics and the subordination of the individual under communism.

V. Human Nature

Just as the neoclassical economic theory’s conception of what is society differs from that of the CST tradition, so to does their conception of human nature. The typical view of human nature found in economics 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. The underlying “hedonistic” view of human nature was best characterized by Thorstein Veblen (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 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.

Essentially, the view of human nature that underlies neoclassical economic theory is that presented by Jeremy Bentham. 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 and

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. 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.

In Marx we get a very different picture of human nature. Much like the classical and neoclassical economists, Marx also had a materialist conception of the end or goal of humankind. Marx does not attack the central goal of capitalism, economic growth. His objection is to the concentration of the benefits of economic growth in the hands of the owners of the means of production at the expense of the creators of value -- workers.

Marx's conception of human nature is the polar opposite to that taken by orthodox economists, just as is his view of society. For Marx, "the real nature of man is the totality of social relations." Outside of the obvious "natural" constraints on humans, the need to eat, sleep, procreate etc, there is no universal human nature in Marx. If man acts in a rational maximizing manner, it is society, especially market relations, that have shape this behavior. "It is not the consciousness of men that determines their being, but, on the contrary, their social being determines their consciousness" Marx states in one of his more famous quotations. Yet Man is not over-determined in Marx, for his call for "workers of the world to unite" implies a considerable amount of free will. The decline of capitalism in Marx might be inevitable and deterministic, yet people could make their history as much as it makes them.

The CST tradition has a very different view of human nature. A constant and consistent theme of CST is the social nature of man. Man outside of society is unthinkable in CST, just as it is in reality. As stated in *Quadragesimo Anno*: "According to Christian doctrine, man, endowed with a social nature, is placed on earth in order that he may spend his life in society, and under an authority ordained by God; that he may develop and evolve to the full all his faculties to the praise and glory of his Creator; and that, by fulfilling faithfully the duties of his station, he may attain to temporal and eternal happiness" (O'Brien and Shannon, 1992, p. 68). Here we see a clear difference between both the orthodox economics view, Marx and CST. For CST, the glory of the Creator is the "end" of human behavior, and not the maximizing of earthly "pleasures" or "utility," nor the full development of human capabilities for their own sake.

CST is also based on the doctrine of free will, totally absent from orthodox economics. Free will, which plays an important theological role in our understanding of human nature, is important for understanding the economy for it helps to explain economic activity and the importance of uncertainty in market economies. Rational economic man, with its assumption of perfect knowledge, is more than human, while “over-determined” man is less than human. CST provides the basis for a fully human nature, and thus a more realistic economics.

VI. Progress

The concept of progress is central to the issue of how values permeate economic theory, for it is here that economists and public officials attempt to make objective that which is subjective. Any concept of progress has the theorist’s built-in value-laden preconceptions. For, as Clarence Ayres has noted, any conception of progress is based on a conception of a goal or end of progress.

The traditional conception of progress is that of movement toward the attainment of an ‘end.’ Within the limits of day to day activity, finite and provisional ends are of course set up. Thus one may speak of progress toward the attainment of an academic degree. In a much more general but still limited sense one may even speak of the advancement of science as progress toward knowledge, or something of the sort. But the idea still persists that the attainment of such limited objectives constitute ‘real’ progress only insofar as these limited objectives contain some particularization of the universal ‘end’ (Ayres 1944, p. 234).

The “end” by which progress is defined and evaluated comes from the values of the individual, institution or community defining “progress.” “Ends” can never be neutral or value-free and they cannot be determined or evaluated solely by objective science. Based on their individualistic conception of society and their hedonistic conception of human nature, neoclassical economic theory conceives of progress as merely the rise in market activity, best measured in concepts like Gross Domestic Product. This conception of progress is not willy-nilly, nor is it a matter of statistical convenience, for the statistics were developed based on the “values” underlying neoclassical economic theory. “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). Gross Domestic Product is merely the adding up of these satisfaction of wants as they occur through market exchanges.

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. 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 (cost of production) and reaches an equilibrium when these (quantity demand and quantity supply) are equal. The underlying

order of the market is an expression of societies values, yet only values that can be expressed in a market transaction are included. 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. Underlying this whole approach to economics is the hedonistic conception of human nature and the individualistic conception of society. Social well-being (the common good) is defined as the cumulative consumption of individual utilities. Given this conception of human nature and society, it is natural for economists to place all their emphasis on a measure of economic well-being that measures economic transactions, i.e. the sale of goods and services to consumers. Whether these transactions actually contribute to social well-being or not is never asked, for the theory is based on the premise that individuals only engage in transactions if they receive utility from the transaction. Furthermore, the question of the common good is excluded from the analysis. In neoclassical economics there is no common good, for there is no society. Neoclassical economic theory necessarily holds that society is a mental fiction, that only individuals have any real existence. Thus, for the common good to have any meaning in economics, it can only be the sum total of the utilities consumed by the individuals in a community. (See Appendix for a critique of GDP as a measure of progress).

When increases in GDP not only do not reflect improvements in the quality of life, but are created by social decline, then it is imperative to develop alternative measures of economic and social well-being. Furthermore, the values which underlie neoclassical economic theory and the use of GDP as the primary indicator of progress and social well-being are not those of any specific society, and certainly are not those of a civilized society. They reflect the values of a particular laissez-faire ideology and the small percentage of the population that benefits most from the exclusive promotion of private production over all other forms of economic activity.

If, instead of value equaling utility through market transactions, we adopted an alternative conception of value, then our conception of progress, and also our measurements of progress, would be very different. The CST conception of value would be the promotion of human dignity and the common good. A similar alternative is the "instrumental value principle" developed in the American Institutional economics literature, most notably by Marc Tool. Under this approach, the criterion of social value is "the continuity of human life and the noninvidious recreation of community through the instrumental use of knowledge" (Tool 1986, p.55-56). By using such a criterion, Thorstein Veblen, in *The Theory of the Leisure Class* (1899) was able to examine and evaluate the role of consumption in society. This approach allows the analyst to make the important, but often difficult, distinction between consumption that promotes human dignity and the common good and that which is based on creating invidious distinctions (conspicuous consumption). The ability to make such distinctions is essential if we are to understand, measure and promote "real" progress. Our conception of progress cannot be limited to market transactions, but must include various social factors that fundamentally affect on human dignity and the common good. As the U.S. Bishops state in *Economic Justice for All*: "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).

VII. Conclusion

The purpose of this paper is to suggest how economic theory would be different if one substituted the value premisses of CST for those that currently form the bases of neoclassical economic theory. Each of the main points made in this paper could easily be expanded to separate chapters in a short book. The implications of this proposal would fill volumes. Clearly we have our work cut out for us.

Appendix

A Digression on What’s Wrong with GDP?

As a measure of economic and social well-being GDP has many inherent problems. Most economists note that GDP often excludes transactions that are part of the economic life of a community, for example, the so-called black or underground economy. Economists have also noted the problem of externalities. An externality is an effect of a market exchange on individuals who are not part of the exchange. The fact that a nonparticipant is affected by a market transaction, according to neoclassical economic theory, means that utility or disutility is being experienced which is not being reflected in the determination of the transaction's price. The justification of free markets is essentially the theory that in a free market, prices reflect, in the long run, the sum of society's costs of producing goods or services (supply) and their desire for such goods and services (demand). If externalities exist, then there are costs and benefits that are not being fully expressed in the marketplace, therefore the market is not reaching the optimal equilibrium solution. If the problem of externalities can somehow be adequately addressed, most economists feel then that GDP will be an adequate measure of economic and social well-being.

Yet the limitations of GDP are more systemic than a mere information problem. GDP is a measure of economic transactions, and not all transactions can be considered a contribution to social well-being. Furthermore, much that contributes to social well-being might not be in the form of a market transaction. These two facts are at the heart of the current critique of GDP as an indicator of progress.

GDP measures transactions by their amount in monetary units. Any attached satisfaction is incidental to the transaction. Yet much of the growth in transactions stems not from increasing well-being (goods and services for consumers) but derives from the increased costs of living in contemporary society. Fear of crime motivates many to purchase various goods and services (engage in transactions) which are not designed to increase their level of happiness, but to protect their existing state. The purchase of cigarettes and the eventual expenditures on cancer treatment both add to GNP. When a couple gets a

divorce, the level of transactions increases as two households now need to be provided for, and many non-market activities such as home child care, must now be purchased through the market. As A.C. Pigou noted, "If a man marries his house-keeper or his cook, the national dividend is diminished" (Pigou, 1936, p. 33). The reverse is equally true and is a more significant factor in modern economic life. In fact, the break up of the family is a major contributor to the growth in GDP. Other social ills, such as crime, drug abuse, and juvenile delinquency, all lead to increases in market transactions and thus promote increases in GDP, but do not contribute to social well-being. Furthermore the continual growth in waste and pollution, caused by the high level of economic activity, also generates significant increases in market transactions, either directly (the costs of cleaning up the environment) or indirectly (cost generated by illnesses related to pollution). In fact, pollution is a double bonus for it adds to GDP when it is generated, and it adds to GDP again when it is cleaned up (Cobb, Halstead and Rowe, 1995). Thus, "growth can be social decline by another name" (Ibid. P. 65).

As a measure of market transactions, GDP necessarily leaves out non-market activity. The preparation of food at home contributes nothing to GDP, whereas having a restaurant prepare your food does. Paying for child care increases GDP, whereas raising ones own children reduces GDP in two ways. First, it removes a potential worker from the labor force and second, it provides an economic service that does not pass through the marketplace, meaning the loss of an individual earning profits from the activity. Household labor and volunteer labor, both essential for society, do not contribute to GDP and crowd out possible profitable delivery of such services.

Economists have long noted the need to adjust national income accounts to take into account the consumption up of capital goods. It is well known that a society that consumes not only its current income, but also consumes part of its capital stock, will be worse off in the future. Yet national income accounts are not similarly adjusted for the depletion of natural resources. This is particularly a problem in undeveloped countries where most of the economic growth comes from the cutting down of rainforests and depleting other natural resources. Such activities are clearly not sustainable.

In a similar way, the viability of a market economy necessitates a high level of what can be called "social capital," the institutions and attitudes that allow for any economic activity to take place. In a market economy, respect for property rights is very important, as is a basic level of honesty and ethics. For a market economy to function, such attitudes must be second nature, the norm. The legal system operates around the fringes to support these attitudes, but it could not enforce them if even a small number of the population started to reject them. The socialization that creates civil society takes place, for the most part, outside of market transactions. As Adam Smith noted, it begins in the family, gradually extends to the local community and finally to society at large. Smith (1976a) knew full well that this socialization process was an essential precondition to the operation of what he called "a society of perfect liberty" and what we call a market economy. The break down of this socialization process, which is at the heart of the rise in drug abuse, crime and the break-up of the family, contributes to the growth in GDP, but runs counter to the common good and the long run sustainability of a social order.

Endnotes

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