

# Is Catholic Social Thought Compatible with Contemporary Economics and Finance?

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# Economics and CST are two different disciplines

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- Economics is a social science that investigates how societies provide for their material reproduction.
  - Catholic social thought is a branch of Moral Theology, which enumerates the principles Christians are called to live by.
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# Yet they have many similarities

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- Both are concerned with human behavior.
    - Economics from a narrow perspective, CST from a very broad perspective.
  - Both are necessarily normative, that is grounded in values (regardless of what neoclassical economists might claim).
  - Both derive from the Western/Christian intellectual tradition.
    - Economic theory has its origins in the Natural Law tradition in Moral Philosophy, Catholic social thought combines the Natural Law tradition with the revealed Truths of the Gospel.
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# The Dialogue Between Economics and Catholic Social Thought

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- ❑ The dialogical nature of CST.
  - ❑ What does Catholic Social Thought contribute to a dialogue? The ethical foundation upon which one can build a just economy and promote real human happiness.
  - ❑ What does Economics contribute? It should contribute an understanding of the “the world as it is” (Leo XIII) to assist in making prudential judgments.
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# CST does not seek to replace economists with theologians.

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- ❑ CST is not an economic theory or policy agenda.
  - ❑ CST is a set of moral principles designed to inform economic decisions and a set of criteria for evaluating economic outcomes.
  - ❑ To be successful, CST must dialogue with economists and economic actors, respecting their autonomy and expertise, but insisting that its expertise on the nature and purpose of the human person be taken into account.
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# Economics and Ethics

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- ❑ Economics without ethics is bad economics (because ethics influence economic decisions) and it is impossible.
  - ❑ Economics based on “market created ethics” (utilitarianism) is problematic, especially for Christians.
  - ❑ Economic theory needs an ethical foundation.
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# If Economics needs ethics, why CST?

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- ❑ In the West, Christian Ethics is the foundation of ethics.
  - ❑ Catholic social thought is the most developed system of applied Christian ethics on economic issues.
  - ❑ Secular argument: Principles of CST are what is necessary for a just society.
  - ❑ Christian argument: God is real and CST flows from what God has revealed through His Son and the Church His Son established.
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# **Three Fundamental Challenges of CST to Neoclassical Economic Theory**

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- 1. Understanding of the nature of the Human Person**
  - 2. Principle of the Common Good**
  - 3. The Principle of Solidarity**
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# 1: What it means to be Human

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The distinction between “Individual” and “Person.”

CST 1<sup>st</sup> basic principle is the dignity of each and every person comes from their being made in the image and likeness of God (*Imago Dei*), and as this dignity is a gift from God it does not lessen due to age, disability, income status, gender or race. What makes us Human comes from being made in God’s image. This is what separates humans from the rest of creation.

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# Neoclassical Economic Theory's View of Human Nature:

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## Rational Economic Man

### ■ Autonomous

- Considers only individual preferences, prices and budget constraint.
- No social, historical or cultural influences. (Interpersonal comparisons of utility functions is strictly prohibited).

### ■ Rational

- Perfect information.
  - Ironically, no free will.
  - Tautology (all choices are rational by definition).
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# Christian Anthropology asserts Persons, not mere Individuals:

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All persons have dignity and thus have rights.

All persons have a social nature and must live in communities, and thus have responsibilities. Human development requires social participation!

All persons have gifts of reason and free will, and thus are moral agents who are responsible for their actions.

All persons have a natural longing for God and their ultimate happiness is union with God.

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# Economic Implications of Christian View of the Human Person

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- ❑ Neither Autonomous “Rational Economic Man” or “totality of social relations” but both unique person and social nature.
  - ❑ Emphasizes the whole person (social, political and spiritual along with economic)
  - ❑ Human rights are the foundation upon which our political, social and economic institutions need to be built.
  - ❑ Understanding of human well-being needs to go beyond per capita income or other market measures.
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## 2: The Common Good

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“According to its primary and broadly accepted sense, *the common good* indicates ‘the sum of those conditions of social life which allows social groups and their individual members relatively thorough and ready access to their own fulfillment’ (GS 26)” (CSD 163).

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# Common Good in Neoclassical Economics

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- ❑ In theory: Pareto Optimality and general equilibrium.
  - ❑ In practice: economic growth and profits.
  - ❑ Methodological individualism prevents neoclassical economic theory from considering something “common” that cannot be reduced to a summation of “individuals”.
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# Economic Implications of the Common Good

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- ❑ The common good is not the sum total of individual goods (like gross domestic product), for it encompasses the good of all people and the whole person.
  - ❑ Economic activity can be good or bad based on how it promotes the common good, and not just on whether it is profitable.
  - ❑ Most major economic problems (global warming, mass poverty, even the current credit crunch) require collective action, structural change and public goods, thus economists need to go beyond thinking in terms of methodological individualism.
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# 3: Solidarity

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The necessary interdependence of social life needs to be grounded in an authentic concern for the well-being of all persons. This is true for those we have direct interaction with and for those whom our actions will affect, even if we never see them. The principle of solidarity is “a firm and persevering determination to commit oneself to the common good. That is to say to the good of all and of each individual, because we are all really responsible for all” (SRS 38).

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# Solidarity and Self-Interest

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- ❑ Solidarity with others is often contrasted with rational self-interest.
  - ❑ Economists follow Adam Smith's views on self-interest, but ignore his placing these actions within the constraints of self-restraint and social morality (which come from the sympathy principle).
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# Economic Implications of Solidarity

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- ❑ Self-Interest needs to be kept in check, by competition, self-restraint, social norms and when these don't work, the State.
  - ❑ A minimum level of solidarity is necessary for any economic or social activity. Self-interest alone would never create economic order.
  - ❑ Society needs to promote solidarity to counter the corrosive effects of the "ethics generated by market participation".
  - ❑ Many solidarity based solutions to economic problems are more effective than market /self-interest based solutions.
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# Implications of Differences on Some Fundamental Issues:

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- Ethics
  - Methodology
  - Nature of:
    - Markets
    - Work
    - Consumption
    - Purpose of firm
    - Wealth
    - Output
    - Distribution
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# Conclusion

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- ❑ CST seeks to expand economic discourse to include non-market values and perspectives.
  - ❑ CST improves economics by helping it engage the issues of ethics, and encouraging it to include social and historical context.
  - ❑ Economic analysis is a fundamentally important step in the prudential judgment process, and is necessary for a “fully informed and formed conscious” but it is not sufficient. Understanding the natural law (reason) and God’s revelation (teachings of the Church) are also necessary for making prudential judgments in economic decisions.
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