

Theology and the Social Sciences
**The Intersection of Theology and Economics:
Is it the Empty Set?**

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I. Introduction

The purpose of this paper is threefold. It is first designed to explore the reasons that, at least to some degree, economic analysis has over recent decades typically appeared to be divorced from ethics and theology. Second, it is my intention to discuss the implications of this segmentation for the discipline of economics. Based on this discussion I will offer some preliminary remarks on recommendations for a greater synthesis of economics with ethics and theology.

II. Positive and Normative Economics

Among the first concepts that we teach students in our introductory economics courses is the distinction between positive and normative economics. Positive economic analysis is defined to be the study of what is, while normative economics is defined to be the study of what ought to be. For example, a (controversial) positive statement might be that “increases in welfare payments for additional children lead women to bear more children,” while a normative statement is that “because of this, we ought to eliminate increases in welfare payments for additional children.”¹

This distinction between positive and normative analysis is crucial in any field, though I believe that in economics we are much more forceful about the distinction. As economists we spend tremendous effort on training newcomers in the positive approach to economics before engaging in normative discussions. This is akin to studying Spanish vocabulary and grammar for quite some time before engaging in a critical analysis of Don Quixote in medieval Spanish. The second can only be done properly if the first has been adequately covered. In the same fashion, if a person’s understanding of biology is flawed, an ethics based on that understanding might very well be flawed.

While this distinction between normative and positive economics is necessary and useful, I believe that the separation has in many ways been made too complete. It is possible, and desirable, to incorporate ethics- or morality-based analysis into the positive study of an issue from the outset at least to some degree. While it may be impossible to thoroughly analyze and judge the situation in question until much further into the course of studies, some rudiments of ethical judgment may be introduced at the beginning. For example, in the analysis of an increase in the minimum wage we tend to ignore completely any discussion of the ethics or morality of the increase and focus only exclusively on efficiency issues. The reasons for this will be discussed in a moment. The point to be

made here is that it is certainly possible to cover the principles or theory of what such an increase in the wage might do, equipping our students with enough training in positive analysis, to begin at least an initial exploration of the normative dimensions.²

At the same time, I do not want to overstate the dichotomy between normative and positive economics as practiced in the field. Much of the contour of the field is at least subtly shaded by the relationship between the two. For example, economists nearly universally advocate free trade between nations.³ At the same time, we are (generally) sufficiently honest to point out that there are groups who might be adversely impacted by free trade. We sometimes discuss clearly that if we are concerned about the welfare of these groups and want to devise the least costly program to assist them, we should pursue free trade coupled with trade adjustment assistance programs, rather than close the borders to trade.⁴

In other cases, the ethical dimension is not so clearly developed, but is often implicit in the analysis of the particular issue. Further, I would argue that if an economist wants to advocate a normative position, it must be carefully disguised in positive analytical window dressing for it to be accepted as legitimate research. Regardless, we seldom explicitly explore the assumptions we make about ethical or moral decision-making, a point I take up below.

In the next section I discuss some of the trends in economics that help explain why this “divorce” between positive and normative analysis has taken place. The third section explores some of the consequences of this, and the final section briefly offers a few suggestions and some concluding remarks.

III. A Bit of History

In 1947 Paul Samuelson, an assistant professor of economics at the Massachusetts Institute of Technology, published his work *Foundations of Economic Analysis*. This book is considered to be the seminal work in the integration of mathematics and economics. While some economists had employed mathematics to some degree in some of their work prior to this, Samuelson laid the groundwork for the “mathematization” of economics.⁵

While the profession did not immediately embrace the use of mathematics, by the early 1970s it had become a necessary ingredient in research deemed acceptable by the profession. In the late 1950s, it was rare to find math in any of the published articles in the *American Economic Review*, arguably the foremost journal in economics. By the early 1970s, it was extremely rare to find an article that did not contain significant mathematical analysis. Mathematics had become a badge of authority in the profession, and those who chose not to employ it became increasingly marginalized. By the early 1970s, any reputable Ph.D. program required a minimum of three semesters of college calculus on the part of applicants.

A natural consequence of this, of course, was the marginalization of research or ideas or sub-fields that could not be modeled using formal mathematics. This reflected what had, by the early 1970s, become a genuine chauvinism that belittled work that was not deemed to be serious enough, as measured by its mathematical content. This trend attracted increasing numbers of physicists, mathematicians, and engineers into economics, which in turn nudged the level of “mathematicality” up even further.

Mathematicians were attracted to economics because it was mathematical in nature, and the field became more mathematical because of their entry.

This trend had, of course, its benefits. Math is a tremendously efficient language, and its use has permitted economists to push the boundaries of the discipline in previously unimaginable ways. It provides a level of rigor that, if nothing else, helps clearly delineate the limits of the conclusions or models employed by economists by succinctly presenting the assumptions and conclusions, as well as the links between them. In any discipline it is important to carefully assess the role that the assumptions made at the outset influence the conclusions reached, and math made this task much easier in economics.

At the same time, however, this trend led economists to increasingly abandon issues or controversies or whole sub-fields within economics that could not be formally modeled with math. Among the victims were economic history, the history of economic thought, and discussions of social welfare. Economics, since the time of Plato to Adam Smith to John Stuart Mill and after, had devoted tremendous energy to all of these. Most of our students know that Adam Smith is the “father of modern economics” but do not know that he was also considered to be a philosopher, ethicist, and moral theologian.⁶ In 1759, sixteen years before his *Wealth of Nations*, he published *The Theory of Moral Sentiments*, which explored the self-interested nature of man and his ability to still make moral decisions based on factors other than selfishness. In the *Wealth of Nations*, Smith laid the early groundwork for economic analysis, but embedded it in a broader discussion of social justice and the role of government. Our students today know only of Smith’s famous analogy of the “invisible hand” and refer to him (rather obliquely) in defense of free markets.

It would appear to me that by the twentieth century the discipline had moved largely away from ethics– or social justice-based analysis. It continued to be, however, a relatively permeable field in that many leading theorists blended psychology, political science, and sociology into their economics. Thorstein Veblen, for example, published the *Theory of The Leisure Class* in 1899 in which he explored, among other things, the formation of tastes (something economists now take as a “given”). His discussion is a remarkable synthesis of ideas from each of the aforementioned disciplines.

Economists who today approach economics in this way are not widely respected in the field. For example, John Kenneth Galbraith is one of the most widely known economists outside of the profession. While some of his theory is certainly poorly developed and

outright incorrect,⁷ I believe that his marginalization within the profession is at least partially due to his refusal to wear the badge of mathematical formalist.

As stated above, one of the (adverse) effects of this trend toward mathematics is the neglect of issues by mainstream economists that are currently incapable of mathematical formalization. Thus, notions of justice or ethical behavior, which are not terribly quantifiable, have no role in the current economic framework. For example, the notion that firms seek to maximize profits is a cornerstone of economic analysis (and, I believe, a sound one in that most firms do behave this way). Of course, this begs the question of what firms ought to do based on ethical or moral grounds, and economists generally spend no time exploring this dimension of economic behavior simply because alternative behaviors have not always been mathematically tractable.

At the same time that mathematics was assuming greater importance in the economics profession, I believe that another trend was occurring that contributed to the increasing neglect of ethics and morality in the field. As discussed in a recent *Atlantic Monthly* article the tenor of public or political discourse has changed dramatically over the past several decades.⁸ The author argues that American discourse regarding what it means to be a good citizen has been replaced by discussions that focus increasingly on economic issues, and what it means to be a productive member of society in a narrow sense.

With this change, I would argue, there was a consequential change in the “demand” for economic analysis. By this I mean that, unlike the “supply side” changes in economic analysis internal to the profession described above, changes external to the profession helped drive the trends in what the field analyzes and how it analyzes these things. I believe that we can be correctly faulted for the way we measure some things in economics.⁹ I would argue that our use of these measures has much to do with external pressures applied to the profession to provide data that feeds our appetite for information on output, production, and growth. While this does not excuse possible professional neglect, I believe that it does help us understand why much of the focus in economics has been so narrow in recent decades.

In summary, trends both internal to the discipline (such as increased reliance on formal mathematics) as well as external to the discipline (changes in political discourse) have moved the profession from general, explicit treatment of the ethical or moral dimensions of economic issues and policies. At the same time, I believe that some recent trends might bode well for a return to an exploration of these dimensions.

IV. Consequences of the Trend

I would argue that these trends have had an adverse impact on the discipline in two distinct ways. First, they have led us to abandon our role as the Adam Smith type of philosopher– economist or moral–theologian economist who works energetically to frame the analysis of economic issues within a broader context. Second, I believe that these trends have robbed the profession of a rich line of research that we are only recently starting to “skirt around” in our research agenda.

Let's begin with the second of these issues. Economists for quite some time have taken as "a given" (in math, have treated as exogenous variables) the objectives or goals of both individuals and businesses, as well as a whole range of social, political, and cultural institutions. Because of the trends described above most economists have considered the critical analysis of these "givens" to be outside the purview of the discipline. There have been, of course, notable exceptions (Marxists and neo-Marxists for example). For the most part, however, the profession has decided that the critical analysis of these belonged to others. For example, a critique of the profit-motive of firms was thought to belong to the ethicist or theologian, who didn't bother to use formal mathematics and who could get away criticizing the ends of social processes (unlike economists, who argued only about the means). I should point out that our basic assumptions about the goals of businesses and individuals are not, I don't think, bad ones inasmuch as they do reflect the way in which these "economic agents" actually behave.

I do believe, however, that to date we have missed the opportunity to explore a fascinating and important line of research regarding not what firms or businesses necessarily ought to do, but what at least might be true under alternative behavioral assumptions. For example, what if individuals maximized not only their own total utility (satisfaction from the consumption of things very broadly) but made decisions with consideration of the "social good" in mind? As another example, what sorts of conclusions might we arrive at if we assumed that firms seek not to maximize profits but rather seek to maintain current employment levels instead?

Along other lines, what might we learn if we devoted more energy to the exploration of the links between economics and other social institutions and phenomena? For example, in the (not recent) past we have failed to incorporate what psychologists know about individual rationality into our models, or what political scientists know about political decision-making into our analysis. This was, of course, due to our inability to formally model with mathematics this sorts of phenomena.¹⁰

There have been more recently, however, some heartening changes in research in economics, although I would argue that these changes are "accidentally encouraging." These changes, whether grounded explicitly in ethical or moral concerns or not, are pushing us to analyze some issues more directly related to social justice and ethical issues. I discuss briefly three of these recent changes: increased attention to income distribution issues, refinement of measures of well-being, and more energetic explorations between economics and other fields.

First, changes in American economic performance have required economists to assess the sources of trends that at least indirectly arouse our concern for social justice. Many of these changes have revolved around the slowdown in growth of real income in the United States since the early 1970s. Economists have also have paid increased attention to the related issue of the widening income distribution gap in the U.S. and other countries.¹¹ Significant research over the past several years has been devoted to exploring the role played by international trade, the slowdown in productivity, and immigration on this gap.

The distribution of wealth and income is an important social phenomena with important ethical or moral dimensions.

Second, more economists are questioning the appropriateness of our economic measures. For example, the Atlantic Monthly article cited above (endnote 10) questions the appropriateness of real GDP as a measure of economic performance. The authors point out that our most commonly discussed economic indicator, real GDP, fails to differentiate dollar amounts spent on economic goods versus economic “ills” such as health care spending on chronic illness or disaster cleanup efforts. These economists propose that we develop alternative measures to better gauge the true value of our total economic output.

Along the same lines, some economists have introduced “generational accounting,” which attempts to more carefully measure the flow of costs and benefits over time, into a range of discussions. It has been used (controversially) in the discussion of the federal budget deficit as a means to better assess how current decisions impose costs or possibly benefits on future generations.¹² In the same vein, “contingent valuation,” a method of ascertaining the value of things not traded on markets, has been developed to assist us in the debate over resource use by measuring the value attached to things such as old-growth forests or spotted owl populations.¹³

Third, research in economics increasingly explores the links between economics and other fields such as political science. This helps remove the hermetic seal that has isolated economics in many ways over the past several decades and in the process, I believe, accentuate the ethical dimensions of social decisions.

While these trends in economics are encouraging, they are not always deliberately grounded in social justice concerns. We are only moving in this more “socially-conscious” direction by accident¹⁴ and are still doing so too narrowly. It is often the case that the profession is exploring these issues not out of a broad social concern but rather as strict disciplinarians who have noticed an interesting, unexplained economic phenomena and who have the necessary mathematical tools to pursue an analysis of them. Take the case of the widening income distribution gap. I suspect that much of the attention devoted to it is simply due to the fact that the gap is there (and we have solid data on it) and not because the profession is necessarily concerned about its social or moral implications.

Or consider the one-way integration of political models into economic models. This has been pursued not because we are interested in examining how political power influences economic policy as part of a broader social-moral investigation, but rather because it helps us very narrowly explain policy choices; further, it has been adopted as a line of research because mathematical tools (such as game theory) have been developed more recently that allow us to discuss these issues more rigorously.

In a similar fashion, we often explore the implications of what appears to be morally-grounded behavior but only from a narrow economic perspective. For example, when a textile mill in Massachusetts burned to the ground two weeks before Christmas, many employees expected the owner to lay them off (and perhaps never reopen the plant).

Instead the owner decided to continue paying his employees, give them a Christmas bonus, and rebuild the plant.¹⁵ Economists tend to interpret this not as a humanitarian effort but rather as a purely rational economic decision that maximizes the present value of future profits. Thus, I would argue, we explore some issues from the wrong premises and therefore still miss some essential features of the phenomena we seek to explain.

As a final note about the trends in economics, I should pointedly remark that my commentary thus far applies to the mainstream of economic analysis. There is a significant, though marginalized, body of work on morality and economics.¹⁶ I must admit that I was not even aware of this research until I conducted a search of the literature for this paper. I do not think that I am exceptional in this regard, so that while work on ethics and economics exists, it has not been part of most economists' repertoire.

V. Concluding Remarks

In summary, I have attempted to explore some of the reasons why economics has, to a large degree, been devoid of ethical or moral dimensions and what the consequences of that dichotomy have been. In this section I would like to briefly discuss what we might do in the profession to assume a greater social consciousness in our work, and offer a prognosis of the direction of economics as a discipline.

First, I think that we must be more willing to openly discuss the ethical and moral dimensions of the issues and policies we examine. For example, in the current federal government budget debate, we have many ways to explain why it is that legal defense for the poor, subsidized public housing, and the National Endowment for the Arts took big hits while the true problematic areas of Social Security and Medicaid did not. We have not, however, as a profession raised the ethical dimensions of these changes. As a profession we could seek to work with ethicists, moral theologians, and others to create a broader social dialogue on the issue. Economists must work with others who have their own tools and training in the same way that some philosophers and theologians have worked with economists. At a Catholic institution with a rich history of social service we could work more energetically at offering interdisciplinary course work for our students, many of whom seem enamored of the "free market," and broaden our attempts to examine how ethical dimensions of behavior (greed, power lust, and so on) influence policy and outcomes.

As part of our research agenda we could incorporate a critical examination of our basic premises about human or organizational behavior in order to explore at least what might be, for those who are uncomfortable prescribing what ought to be. At a Catholic university we have the unique opportunity to work closely with individuals who are experts in social justice and other areas to sharpen the parameters of the policy debates in which economists often play a part (and are subsequently ignored!).

Interestingly, we have not devoted much energy to the question of how what we teach and assume to be true in the discipline influences actual behavior and decision-making. Recent surveys of economics students and students in other majors seem to indicate that

our majors tend to make choices in a more selfish fashion (or what we call a more rational fashion) than do other majors.¹⁷ This has important implications for our role as teachers and scholars, particularly if we are concerned with the linkages between economics and ethics.

As for the future, I am optimistic that the profession will continue to remove its hermetic seal and work in more interdisciplinarian fashion. I am, however, afraid that we will proceed only at the pace dictated by some of the trends discussed in the previous pages, rather than more boldly stake out territory in the broader social conversation we need to solve serious problems.

Notes:

1. I happen to disagree with both statements.
2. This is what is true for the profession as a whole. I suspect that at St. Thomas we are at least marginally less guilty of this.
3. See David Colander and Arjo Klamer, "The Making of an Economist," *The Journal of Economic Perspectives*, vol. 1, no. 2, Fall 1987 for a general survey of economists' attitudes on a range of issues.
4. A study by Robert Crandall estimated that the cost of each job preserved in the auto industry through import barriers in the early 1980s was on the order of \$160,000 per year. See the article by Robert Crandall, "Import Quotas and the Automobile Industry: The Costs of Protectionism," *Brookings Review*, Summer 1994, pp. 8–28.
5. Low-level math appears on only about ten pages out of about 400 total pages in Keynes' famous *The General Theory of Employment, Interest, and Money*, published in 1933.
6. See Robert Ekelund and Robert Hebert, *A History of Economic Theory and Method*, McGraw-Hill, Inc. 1983.
7. See Paul Krugman, *Peddling Prosperity*, W.W. Norton & Co., 1994.
8. See Michael J. Sandel, "America's Search for a New Public Philosophy," *The Atlantic Monthly*, March 1996.
9. For example, yet another *Atlantic Monthly* article argues that GDP is a poor measure of economic welfare for the sorts of reasons Terry Nichols discusses in his paper for this seminar. See Clifford Cobb, Ted Halstead, and Jonathon Rowe, in "If the GDP is Up, Why Is America Down?" *The Atlantic Monthly*, October 1995.
10. This is also because of the need for, or at least tendency toward, increased academic specialization.

11. In the U.S. real hourly wages for the median worker in 1989 were five percent lower than in 1970. See Chinhui Juhn, Kevin Murphy, and Brooks Pierce, "Wage Inequality and the Rise in returns to Skill," *Journal of Political Economy*, vol. 101, no. 3, 1993, pp. 410–442.

12. See Alan Auerbach, Jagadeesh Gokhale, and Laurence Kotlikoff, "Generational Accounting: A Meaningful Way to Evaluate Fiscal Policy," *Journal of Economic Perspectives*, vol.8, no. 1, Winter 1994.

13. See the Fall 1994, vol. 8, no.4, of the *Journal of Economic Perspectives* for several papers on this topic.

14. By this I mean that we are moving in that direction for the reasons discussed momentarily, not because it is our social or moral obligation to do so.

15. See "After the Fire: Mill Owner Sees To It Crew Isn't Left In the Cold," *Minneapolis Star and Tribune*, Dec. 20, 95.

16. For a survey of this work, see Daniel Hausman and Michael McPherson, "Taking Ethics Seriously: Economics and Contemporary Moral Philosophy," *Journal of Economic Literature*, vol.31, no.2, June 1993.

17. See Robert Frank, Thomas Gilovich, and Dennis Regan, "Does Studying Economics Inhibit Cooperation?" *Journal of Economic Perspectives*, vol. 7, no. 2, Spring 1993.