

## The Contribution of Catholic Social Thought to a Macro Economic Principles Course

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*“The time has come for a new and deeper reflection  
on the nature of the economy and its purposes”*  
John Paul II

### **The One and the Many**

University education owes its origins to the Catholic view of the universe. All creation emanates from the Creator, from the one—the many. One way we come to know the Creator, the One, is to study the many, developing little truths so that we can get come to understand bigger truths, all leading to “the Truth.” Thus from the many we are lead back to “the One.” Based on this perspective, a liberal arts education attempts to develop well rounded individuals who could see how the diversity of observed reality in fact is an interconnected reality. Increasingly, however, the academy has lost this sense of interconnectedness, especially in Business Schools. Students study distinct courses divided by departments and specialties, often with professors who view their discipline as self contained and independent, as if their subject matter existed as separate silos in the vast field of knowledge. While there are certainly great benefits from intellectual specialization, knowledge becomes much more useful when it is combined and integrated with all the disciplines that speak to the problem one is studying. A Catholic approach to every discipline is necessarily interdisciplinary because they recognize the “two wings” of faith and reason. Intellectual specialization yields theoretical knowledge, yet business is necessarily applied knowledge, thus practical wisdom in the proper method. Thus business education needs to break from the theoretical/silo approach, integrating the various business disciplines with each other, all built upon the foundations of the liberal arts and humanities.

Economists have lead the way in the silo approach, and in many ways became the role model for all the other disciplines. Economists became increasingly narrow in their approach as they adopted mathematical formalism as the language of economics. The emulation of theoretical physics as the role model for developing economic theory required disconnecting economic activity from the social and historical context that economic activity takes place, by eliminating ethics from economic analysis and by removing what is human from their understanding of the human person (rational economic man). This narrowing of perspective was done so that economics can become like the “hard sciences.” Yet this forces economists to view economic

activity as if it were carried out by autonomous individuals, rather than “persons” who have a necessary social nature. Bringing Catholic social thought into a macroeconomics principles course will help reconnect economic analysis to an overall liberal arts education and allow the student to better see how the economy fits in with the rest of reality, to go from the many to the One.

The Financial Meltdown and Economic Crisis brought macroeconomics out from the shadows it entered in the 1970s and 80s. Much of the work in macro-economics in the past 40 years has been on the search for “micro” foundations of macroeconomics, trying to reduce macro economics to micro economics. This is a rejection of the theoretical insights of John Maynard Keynes *General Theory*, reducing Keynesian economics to policy suggestions. Microeconomics assumes that markets clear efficiently, whereas macroeconomics is built upon the assumption that some markets do not clear efficiently. If nothing else the crisis has shown that macroeconomics is not just microeconomics writ large. In fact, you can argue that ignoring the Keynesian insights on uncertainty, the role of time, money and expectations is what encouraged and justified the financial deregulation that led to the current crisis.

### *Ethics and Macroeconomics*

Public policy plays a bigger role in macroeconomics than it does in microeconomics. In fact, it is the main reason for its existence as a field. While economists argue that economics is a values-free (“positive”) science, public policy, especially in democratic societies, necessarily is based on social values, or at least on the values of those with political influence and power. More so than private choices, which are often left in the “black box”, public choices require an open discussion on values and goals. Whether it is to reduce unemployment, promote local economic development, reduce inflation, protect consumers and workers or help the poor and marginalized, values and value judgments prompt the creation of economic policies and play an important role in policy development.

The Church does not offer universally valid economic policies; there is no “Christian” monetary or fiscal policy *per se*<sup>1</sup>. As John Paul II has stated: “The Church has no models to present; models that are real and truly effective can only arise within the framework of different historical situations, through the efforts of all those who responsibly confront concrete problems in all their social, economic, political and cultural aspects, as these interact with one another” (CA 43). Actual economic policies require taking into consideration the context of the economic problem being addressed, as well as the social and political conditions. Instead the Church offers principles based on the nature of the human person and the requirements for authentic human flourishing. It offers a lens through which one can view and understand economic and social problems and a set of criteria for evaluating both the means and the ends for addressing such problems, but the actual solutions to specific economic and social problems will always be contingent on the historical and social context of the problem. The Church’s expertise is in its understanding of the nature of the human person and in what is necessary for authentic human flourishing (promoting human well being). While this is not enough to solve any economic problem, such knowledge is a necessary underpinning to inform and guide the other expertise’s necessary to address economic and social problems (economics, sociology, politics, the environment etc.)

## **Catholic Social Thought**

The Catholic social thought tradition has been described as being “social wisdom based on: biblical insights; the tradition of the early writers of the church; scholastic philosophy; theological reflection; and the contemporary experience of the People of God struggling to live our faith in justice” (Kammer, 1991, p. 73). For 2000 years Christians have attempted not only live according to Gospel values, they have also reflected on what these values say to the questions of what it means to be human, how should people live together in a manner fitting of their humanity, what is necessary for human flourishing and for a peaceful society, and most importantly, how can we construct a just society. Often this analysis has been in the form of a critique of the many ways actual societies have deviated from the values of the Gospel. We see this clearly in the Church Fathers, such as St. Basil and St. John Chrysostom, and in a systematic way in the philosophy and theology of St. Thomas Aquinas. In the modern era these reflections have produced a series of papal encyclicals and official Church documents specifically addressing social and economic issues from the perspective of the Gospels and in light of the Catholic intellectual tradition. To aid in this process of understanding and alleviating economic and social problems so that Christians can better live the values of the Gospels, the Church has enumerate certain principles that are necessary to ensure that human dignity is respected and the common good promoted.

## **Macro Economic Principles Course**

Macroeconomics as a discipline owes its origins to the fact that the underlying assumption of microeconomics (neoclassical economic theory) that markets automatically clear (no excess supply) does not hold in some markets, at least some of the time. The periodic existence of mass unemployment shows that labor markets do not work as neoclassical microeconomics suggests. Few students, and most likely most professors, do not see the conflict between microeconomics and macroeconomics. Since macroeconomics deals specifically with public policy issues (unemployment and inflation) its perspective allows for more discussion on values and ethics, and less of the narrow “positive” economics approach that typically dominates microeconomics.

Catholic social thought is not, to repeat, an alternative economic theory or economic system. It is not the third way between capitalism and socialism. There is no Catholic macroeconomic theory or policy, and bringing Catholic social thought into a macroeconomics course does not change the topics discussed. It does, however, encourage and allow for a broader discussion of these issues, to see the economy as part of a social and political system.

The following are some standard topics in an introductory macroeconomics course that Catholic social thought can add to the discussion:

### ***The Economic Problem***<sup>2</sup>

Economics is about how society provides for society’s material reproduction (the economic problem). It is often broken down into three basic questions all societies must answer: What should society produce?; How should production be carried out (including social division of

labor)?; and how to divide the social product? Nature does not provide instincts that determine how humans will answer these questions. There are three types of “solutions” to the economic problem: tradition; command and market. Tradition involves following past practice, doing what your parents and grandparents did. Included in tradition are the values and habits of a culture, which always influences economic behavior. Command involves following the dictates of a central authority, typically a governmental body of sorts. The Market solution involves the invisible hand of competition guiding self-interested individuals towards efficient and equitable outcomes. While we often look at these as three mutually exclusive categories, in truth all economies typically have at least two of the solutions, and all modern capitalist economies use elements of all three solutions.

### *Measuring Economic Output*

The emergence of “happiness” as a topic in economics has shown that the general assumption that economic growth is directly tied to improving social well being does not hold anywhere near as much as economists have long argued. Furthermore, given the rise of environmental and social concerns, most governments are moving past national income accounts which merely measure market activity. Macroeconomics focuses on Gross Domestic Product and other national income accounting statistics, which measure market activity, yet there is much that is missed. To measure well being we have to look beyond market transactions and include social statistics and, if we want to promote sustainable societies and economies, environmental statistics. This is one of the main initiatives at the United Nations Statistical Commissions and other international agencies. Meaningful public policy has to be evidenced based, thus governments are being encouraged and assisted in developing statistical collection that will allow for informed decision making.

What often gets left out, however, is that concepts like “progress” and measuring progress are necessarily based on values and value judgments (Clark and Kavanagh, 1996). Statistics are not natural facts economic scientists find in the wild. They are social constructions, and they will reflect the perspective of those who create the statistics. The principles of Catholic social thought can help to guide the construction of what will be counted, for as they say “if it isn’t counted, it doesn’t count”.

### *Work and Employment*

Macroeconomics came from the Great Depression and especially as a response to the high rates of unemployment experienced in the 1930s. Yet work is always more than a “job” or a source of “income.” Work is one of the most important ways we participate in society. Typically economists view workers as “commodities” with their price (wage rate) and their quantity demand (level of employment and unemployment) being just another set of market determined phenomena. The Catholic social thought analysis of work and its role in social participation and the authentic development of the individual person, especially John Paul II’s encyclical *On Human Work*, inform and widen our understanding of work in its economic, social, political and spiritual dimensions. Particularly important is the subjective dimension of labor. CST helps us to see that work and labor are different from corn and apples, and should not be reduced to just another economic variable.

### *Income Distribution*

Like work, income distribution is more than just an economic outcome. Culture, politics and ethics all play a role in establishing how society divides up the preverbal economic pie. The CST principles of the Universal Destination of Goods and the Option for the Poor greatly add to the analysis of income distribution.

### *International Trade and Globalization*

Globalization is the bringing together of peoples from many countries and cultures, in which economic activity takes place, to a larger extent, outside the laws and regulations of an individual country. In trade within a country one can assume that the laws and culture of the participants are fairly uniform. In a global economy this can no longer be assumed. Economic actions require a moral context, and for global economic activity there needs to be a more general or universal moral context. This Catholic social thought provides, particularly as it is based on the natural law tradition and because it is grounded in a people centered ethics, one that looks at the whole person. We see this clearly in *Caritis in Veritate* where the yardstick of authentic human development is used to frame how the issues raised by globalization are understood and evaluated. These issues are not merely economic issues (though the economics should not be minimized) but raise important political, social and religious issues.

### **Prudential Judgment: Linking Principles to Praxis**

As we stated above, the Catholic social thought tradition does not provide a one size fits all economic model or blue print for a “just economy.” Nor does it offer a set of economic policies that will create the Kingdom of God here on earth.<sup>3</sup> Catholic social thought provides the principle necessary to create a just economy, but how one actually brings these principles to life will differ at different times and different places. In an agricultural economy combating the exclusion that causes poverty will typically involve increase the poor’s access to land. Land reform, however, would not to too effective a policy to reduce poverty in most advanced capitalist economies. Poverty then, as now, is based on exclusion, but the barriers are different in each society, thus the ways to over come them will also be different. The Christian Anthropology that underlies Catholic social thought emphasizes the social nature of the human person, particularly the role of socialization in human development. Social and historical context are important factors that cannot be ignored or assumed away. Christian ethics has always noted that one has to follow one’s conscious, but that does not mean that anything that they feel is right is necessarily right, for they have an obligation to have a fully informed conscious, which means first that one adequately understand the moral principles they are to follow, and second that they understand the context in which they are going to apply these principles. The purpose of our conscious is to discover what is God’s will. As St. Thomas Aquinas noted: “The function of prudence is not to set the goals of moral virtue, but simply to determine means to those goals. ... Prudence presupposes the goals of moral virtue as general starting-points and determines what to do in particular.” (Aquinas, 1988, p. 377). The role of Catholic social thought is to assist in the process of forming our understanding of economic problems, in particular on how they relate to the nature of the human person and their flourishing, and to provide criteria with which we can evaluate economic outcomes and processes. Furthermore, as the goal of the Catholic social thought tradition has always been first to help Christians and people of good will to make better moral decisions, its main purpose is to shape values, which then will shape behavior and outcomes. It is not the goal or purpose of Catholic social thought to dictate how individuals and

society as a whole should carry out all their economic actions. The Church does not want to be the central planning agency for the economy. The Church values and promotes freedom, including economic freedom and it values and promotes individual economic initiative and private property. It values property so much it wants everyone to benefit from them through direct participation in them. But freedom, especially economic freedom, without ethics leads to chaos and slavery. Free economic choice without morals, that is without solid criteria for making choices, is hard to justify and defend, morally or on grounds of economic efficiency. Such choices thus become merely random or arbitrary. It is like a sick man choosing their treatment or medicine without knowing what their illness is, or without knowing how the medicine will work or what effect it will have. An economy based on free choosing individuals requires more than just freedom to choose, it requires informed choices, and informed choices include the morality of the choice. This is true for the individual and for society. Catholic social thought helps to form individuals and society so that they can make better choices, so that their freedom will be meaningful, and so that their individual choices will better promote their own and societies well being.

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**Symposium: The Implications of Catholic Social Teaching for Economic Science: An Exchange between Thomas Storck and Thomas E. Woods, Jr., with Responses :**  
**<http://www.catholicsocialscientists.org/CSSR/>**

*A Challenge, by Thomas Storck*

*Catholic Social Teaching and the Market Economy Revisted: A Reply to Thomas Storck  
by Thomas E. Woods, Jr.*

## Appendix 1 Principles of Catholic Social Thought

### **(1) Dignity of the Human Person**

Each and every person is a unique individual with a social nature. The dignity of each and every person comes from their being made in the image and likeness of God, and as this dignity is a gift from God it does not lessen due to age, disability, income status, gender or race. “There is neither Jew or Greek, there is neither slave nor free, there is neither male nor female; for you are all one in Christ Jesus” (Gal 3:28).

### **(2) Principle of Participation**

The development of the person is only brought about through social interaction (working with others, and in giving oneself to others), thus participation in social processes is a fundamental human right (as it immediately flows from the nature of the human person). Participation is a good in and of itself. Furthermore, it is both a human right and a human duty (part of one’s social obligations to the community).

### **(3) Principle of the Common Good**

*“The principle of the common good, to which every aspect of social life must be related if it is to attain its fullest meaning, stems from the dignity, unity and equality of all people. 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).* The common good is not the sum total of individual goods, for it encompasses the good of all people and the whole person.

### **(4) The Universal Destination of Goods**

“God intended the earth and all that it contains for the use of every human being and people. Thus, as all men follow justice and unite in charity, created good should abound for them on a reasonable basis” (GS 69). “God gave the earth to the whole human race for the sustenance of all its members, without excluding or favoring anyone. This is the foundation of the universal destination of the earth’s goods.” (CSD 171). All rights of property (including intellectual property) are subordinate to the rights of all to subsistence.

### **(5) Preferential Option for the Poor**

“The Principle of the universal destination of goods requires that the poor, the marginalized and in all cases those whose living conditions interfere with their proper growth should be the focus of particular concern” (CSD 182). The development of the person is blocked by exclusion from participation in the economic spheres of social life (that is poverty). Poverty caused by exclusion extends to the social, cultural and spiritual spheres of life.

### **(6) The Principle of Subsidiarity**

The principle of subsidiarity states that larger entities should not assume the roles and functions of smaller entities unless it is absolutely necessary. It “protects people from abuses by higher-level social authority and calls on the same authorities to help individuals and intermediate groups to fulfill their duties” (CSD 187). The unwarranted assumption of roles and functions by larger authorities often lessens social participation and should only be undertaken to increase participation.

**(7) The Principle of Solidarity**

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 whose 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).

Appendix 2: CST and Macro Economic Issues

Topic	Issues	CST Principle	CST and Other Catholic Resources
<b>“Positive/Normative”</b>	Role of ethics in economics		EJA.2; CV
<b>Rational Economic man</b>	Understanding of human person fundamental to social sciences.	Dignity of human person	CSD.3; B16, WPD 2007
<b>Economic Problem</b>			CSD ch.7
<b>Measuring Economic Output</b>	Limits of economic growth as a measure of economic wellbeing, environmental and social costs	Common Good	CSD CH 10.
<b>Sustainability</b>		Stewardship	Global Climate Change (USCCB); JPII WPD 1990; B16 WPD 2010
<b>Labor</b>	Subjective dimension of labor	Dignity of Work	EJA#101-109; LE; CSD CH. 6;
<b>Full Employment</b>		Right to work, participation	EJA #136-7; LE
<b>Unemployment</b>			EJA #138-150; LE
<b>Fiscal Policy</b>			EJA #151-169
<b>Taxation</b>			<b>Who Pays? Taxation and the Common Good By William Bole published in Woodstock Report No. 80, December 2004</b>
<b>Interest Rates</b>		Usury	Aquinas, ST, SS, Q79
<b>International Trade</b>		Justice	EJA #267-270; CSD ch7.V.a
<b>Economic Growth and Development</b>	Integral development		PP, CV, MM
<b>Globalization</b>		Justice	CV
<b>Income Distribution</b>	Justice;	Universal destination of Goods	CSD.4.3; CA 4

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<sup>1</sup> This is not to suggest that each and every possible economic policy can be, if given the right circumstances, in conformity with Church teachings. The Church's position is that the requirements of ethics must be adhered to in both the means and the ends of economic policy.

<sup>2</sup> For an extended discussion of this see Clark 2001.

<sup>3</sup> It is worth noting that in the history of economic thought a very large number of economists have offered economic policies that they argued would create heaven on earth.

RESPONSE TO

*THE CONTRIBUTION OF  
CATHOLIC SOCIAL THOUGHT  
TO A MACROECONOMIC  
PRINCIPLES COURSE*

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August 3, 2010

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# Exciting ideas

2

- The economic problem: Why is economics worth studying?
- “Three policy options”
- Subsidiarity
- “Don’t let a good crisis go to waste:” use it to connect economics and ethics
- Are the main arguments in economics about values?



# Values imparted to economics students

3

- Greed?
- Utility maximization?
- Cost-benefit analysis?
- Respect for reasoned contrary opinions?
- The intelligibility of the world, through reason?
- Intellectual honesty, rigor, thoughtfulness, patience?



# Richard T. Ely

4

- *When the author being studied is understood, the students may be allowed, and to a certain extent encouraged, to criticize the author, but never until they understand the author. The frequent difficulty is that this order is reversed and students criticize before they understand, with the result that their thought is vague and confused.*
- *“Suggestions to Teachers of General Economics,” The Journal of Political Economy, Vol. 18, No. 6 (Jun., 1910), pp. 437-440*



# Integrated education

5

- Not a list of conflicting opinions
- Not the melding together of diverse approaches



Someone in the crowd said to Jesus,  
“Teacher, tell my brother  
to share the inheritance with me.”

**He replied to him,**

**“Friend, who appointed me  
as your judge and arbitrator?”**

Then he said to the crowd,

“Take care to guard against all greed,  
for though one may be rich,  
one’s life does not consist of possessions.” [...]

Lk 12:13-21



# Human Development Index

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$$\begin{aligned} \text{HDI} = & \frac{1}{3} \frac{[\log(\textit{PPP per capita GNP}) - \log(\$ 100)]}{[\log(\$ 40,000) - \log(\$ 100)]} \\ & + \frac{1}{3} \left( \frac{\text{life expectancy} - 25}{85 - 25} \right) \\ & + \frac{1}{3} \left( \frac{2}{3} \frac{\text{adult literacy}}{100} + \frac{1}{3} \frac{\text{gross enrolment}}{100} \right) \end{aligned}$$



# Integrated education

8

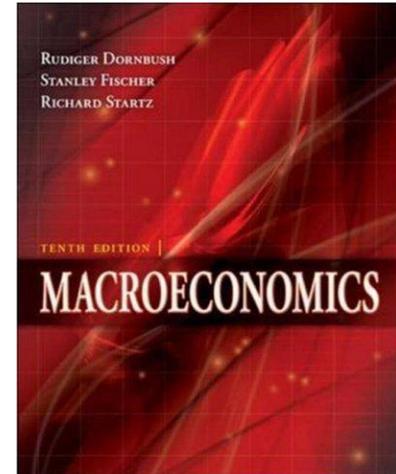
- Not a list of conflicting opinions
- Not the melding together of diverse approaches
- The mental habit of knowing when to rely on his approach and when on others', of spotting mistakes and biases in partial advances, and of seeing the real overlap hidden under superficial disagreement.



# Dornbusch, Fischer and Startz

9

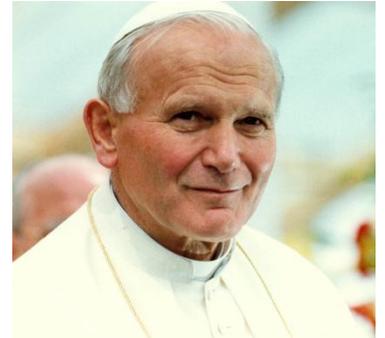
- *Understanding the macroeconomy requires a rich toolbox and the application of sound judgment regarding when to deploy a particular model. [You should aim to] master a toolbox of simplifying models and to then make quite explicit decisions as to which model is best suited for analyzing a given problem.*
  
- *Macroeconomics, pp. 12-13*



# Faith and Reason

10

- “Faith and reason are like two wings on which the human spirit rises to the contemplation of truth”.
- John Paul II, *Fides et Ratio*, 1



# First Best ... ?

11

- A *curriculum* that says
  - truth exists
  - truth can be known, through a variety of approaches
  - approaches are complementary and distinct.



# Integration as an Activity

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## Core Curriculum

Philosophy  
Theology  
History  
Literature  
Natural Science  
Language  
Mathematics

## Major

The discipline,  
within the tradition of the profession

A few courses of explicit interaction  
with other disciplines

## General Electives



# Economics at AMU

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## Core Curriculum

- Sacred Scripture, Sacred Doctrine, Living in Christ
- Nature and Person, Ethics, Metaphysics
- 2 Laboratory Biology, Chemistry, or Physics
- Ancient & Medieval Literature, Modern Literature
- Ancient & Medieval Western Civilization, Modern Western Civilization
- American Civilization
- Elementary and Intermediate Latin
- Gregorian Chant, Arts Practicum
- Mathematics

## Economics

- Macroeconomics (Principles, Intermediate)
- Microeconomics (Principles, Intermediate)
- Catholic social teaching
- Statistics
- 3 electives
  - Game theory, Labor, Industrial Organization, Econometrics
  - Development, International, History of Thought, Economic Ideologies
- Senior Seminar

6 general Electives



# What we can do

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- Give students a list of specific courses in philosophy, theology, history, literature, science, mathematics, social science, language, etc. that are most likely to highlight the power of those approaches to reality.
- “there are other ways of seeing”



# Paraphrasing Richard T. Ely

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- “There are other disciplines just as well-developed as economics, perhaps a good deal better-developed, which look at things differently.



The last word has not by any means been said upon any of the important theoretical and practical subjects that economics is concerned with; but, as a basis for further work in this course, it is economics that we will endeavor to understand.”



- [The University] sees *that the boundaries of each province are religiously respected, and that there is neither encroachment nor surrender on any side.*
- *Newman, The Idea of a University*



- [In a University,] *professors are like the ministers of various political powers at one court or conference.*

*They represent their respective sciences, and attend to the private interests of those sciences respectively;*

*and, should dispute arise between those sciences, they are the persons to talk over and arrange it, without risk of extravagant pretensions on any side.*

- Newman, *The Idea of a University*

