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## **CATHOLIC SOCIAL THOUGHT IN AN ECONOMICS CURRICULUM**

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### Abstract

There is both great urgency and opportunity in incorporating Catholic social teachings in an economics curriculum. In familiarizing economics majors with the method, content and spirit of this social tradition, students get to appreciate the limitations of neoclassical models, tools and theory for policy formulation and implementation. At the same time, they also get a better sense of how Catholic social thought can be improved further in its reflections on economic life. Much flexibility is possible in such a curricular initiative because these ecclesiastical social documents have numerous points of intersection with economics as an academic discipline, to wit: macroeconomics, microeconomics, economic development, international economics, welfare economics, economic thought and economic history.

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## CATHOLIC SOCIAL THOUGHT IN AN ECONOMICS CURRICULUM

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A strong case can be made for the inclusion of Catholic social thought (CST) in an economics curriculum. After all, the social questions addressed by the papal and episcopal documents that followed in the wake of Rerum Novarum are predominantly about socioeconomic life and policies. Such a curricular effort can take the form either of having CST inserted in various economics courses, where appropriate, or of a stand-alone course in the economics or political economy of the modern Catholic social documents, or both. Much flexibility is possible in this initiative because CST has numerous points of intersection with economics as an academic discipline, to wit: macroeconomics, microeconomics, economic development, international economics, welfare economics, economic thought and economic history. The following sections do not exhaust the interface between an economics curriculum and CST. They are merely suggestive and indicative of the points of convergence and divergence between CST and specific areas of economic thought and analysis.

### I. Macroeconomic theory

Macroeconomics is a sub-field of the discipline that provides a good teaching moment for how economic analysis and moral theology can fruitfully cross-fertilize and challenge each other.

The modern Catholic social documents have invariably called for twin macroeconomic objectives of full employment at a living wage. In contrast, mainstream macroeconomics has low unemployment and low inflation as its desiderata. While having some overlap, these two sets of economic goals are in tension with each other and provide for an excellent opportunity for interdisciplinary conversation.

#### A. Full employment

The modern social documents do not hold a clearly defined definition of what it means by full employment. The most challenging formulation can be found in the 1986 pastoral letter on the economy issued by the National Conference of Catholic Bishops (NCCB). Despite consultations with academicians and economists, this document uses full employment in a literal sense where we *make it possible as a nation for every one who is seeking a job to find employment within a reasonable amount of time* (#136). To the bishops' credit, though, they realistically acknowledge that such an ideal may not always be practicable.

In contrast, *full employment* for (neoclassical) macroeconomics is at the natural rate of unemployment, currently believed to be anywhere between 4 and 6%. The Phillips curve is an empirical relationship that shows a trade-off between inflation and unemployment. We can only

reduce one at the expense of the other. Geometrically, this means that we will never get to the point where we are able to provide a job for everyone wanting one. We are only able to approach it asymptotically, but never really reach this goal because the cost is hyperinflation.

The jarring disparity between the Phillips curve and the 1986 US Bishops' economics pastoral highlights the point that no matter how laudable our economic and non-economic goals are, they must nevertheless ultimately pass the test of practicability: Can they be pursued given the present condition of our resources and knowledge? Economic thought and analysis can greatly enhance CST by informing it of what is technically feasible and what is not. Moreover, Bayer (1990) cautions that CST has to tread carefully in the specificity of its economic teachings lest it unknowingly or unwittingly be identified too closely with or even be viewed as moral approbation for specific schools of thought within the discipline. This would be unfortunate because CST has been emphatic in repeatedly asserting that it does not propose itself as the *third way* between socialism and laissez faire capitalism.

The contributions move in the other direction as well. CST's high ideals prod economic thought and analysis not to accept a mechanistic, Newtonian view of economic life—one that is defined and governed by immutable laws. Mainstream economists' twin macroeconomic goals of low inflation-low unemployment stem from our acknowledgment that we can never, at least with our current level of knowledge, be able to entirely root out business cycles. These disruptive swings in the economy arise because business and household decisions do not match each other perfectly. Thus, markets either have too much unsold inventories (downturn) or is overheating with excessive demand in the face of very little excess productive capacity to spare (boom). Generally, the former leads to low inflation but high unemployment, while the latter leads to high inflation but low unemployment. Such a relationship has been well studied and tested in the Phillips curve. There are exceptions to this tradeoff between inflation and unemployment as seen in the stagflation that ensued in the wake of the oil-embargoes of the 1970s. Economic historians may eventually record the period immediately before the stock market correction of 2000-2003 and the 9-11 tragedy as an unusual, indeed golden, period of low inflation and low unemployment, at least for the United States.

CST calls for people to take responsibility for bringing market outcomes and processes in line with moral convictions despite being merely price-takers in the marketplace, that is, despite being unable to change the market single-handedly by oneself. In other words, CST serves its function well by spurring macroeconomists *to think outside the box* in devising new and creative policies that operate the economy in ways never thought possible before. For example, the 1986 pastoral on the economy is a good teaching moment for macroeconomic policymakers to think of ways to shift the Phillips curve closer to the origin. Such would lead to the best of both possible worlds—low inflation and low unemployment at the same time.

## B. Living wages

A living wage provides a level of earnings that not only satisfies the basic needs of workers and their dependents but also affords them savings for emergencies, for the future and

for the purchase of properties. In other words, a living wage is a level of earnings sufficient to provide the working class with upward mobility in becoming propertied middle class themselves. Needless to say, a living wage is not identical to the minimum wage; the former exceeds the latter manyfold. This is a position that remains unchanged since the seminal document Rerum Novarum (1891).

To their credit, the modern Catholic social documents are cognizant of empirical evidence that suggests a possible trade-off between higher wages and job opportunities. In fact, as early as Quadragesimo Anno (1931), there is already a clear and explicit qualifier that the call for a living wage must always be set within the context of the overall health of the business. In other words, in the face of trade-offs, it is important to strike a balance that we do not cause more damage by ensuring a living wage for a few while throwing many others out of work.

The section in a macroeconomics course that examines the empirical evidence on the impact of minimum wage legislation on employment levels is an excellent occasion to bring in CST's notion of the living wage. The contribution of CST in this regard lies in its articulation of the anthropological basis for the living wage both from a theological and philosophical angle. Note that many local governments and cities have passed, on their own initiative, living-wage legislation for their city or municipal contractors.

In conclusion, CST can push macroeconomics to go beyond conventional macroeconomic objectives and aim for the loftier, if more difficult, goals of further reducing the *natural* rate of unemployment and providing for a moral floor in setting wages. On the other hand, economic analysis can push the Catholic social tradition to moderate its moral pronouncements in the face of empirical realities. CST's twofold objective of full employment at a living wage can be studied both for its strength and its pitfalls given the perennial debates in economic theory and empirical evidence regarding the issue of wage and job creation trade-offs. This is an area where both disciplines can benefit from each other's expertise.

## II. Microeconomic Theory

Quadragesimo Anno's proposal for industry-level vocational groupings lends itself well as an ideal case for understanding and weighing the welfare losses of a monopoly-monopsony industrial structure. Concerned with the growing concentration of economic and political power in the hands of a few amidst a sea of poverty, Pius XI calls for associations of employers and workers to negotiate the terms and conditions of employment within their respective industries. Instead of appealing immediately to government to intervene and embark on improving the lot of workers, Pius XI prefers to let workers do what they are capable of doing for themselves along the lines of the principle of subsidiarity. Examining this proposal with microeconomic tools is a fruitful point of intersection between CST and economics.

First, there is risk of collusion where both employers and employees may form a monopoly-monopsony coalition. This leads to the largest welfare losses compared to the other three possible outcomes or permutations within the factor and goods markets.<sup>1</sup>

Second, one can examine Pius XI's proposal as an exercise in game theory where two blocks of economic power have control over shaping market outcomes to their own benefit. A supply-and-demand framework can geometrically show the requisite transfer of resources from employers to workers if the dual goals of full employment at a living wage are to be achieved. Such an exercise leads to a better understanding of the microeconomics of contemporary living wage movements, fair-price coffee programs and student anti-sweatshop campaigns.

### III. Economic Development

By the nature of its subject matter, development economics is heavily normative because of the value premises that inevitably undergird many of its economic analyses. This is because the formulation of the questions themselves, the choice of the development problem to study, and the selection of proxy variables to use for empirical verification, all depend heavily on the judgment and preferences of the researcher. CST, particularly the documents of the 1960s and 1970s, have had much to say about the plight of the Third World.

#### A. Balanced and fair development

Mater et Magistra has much to contribute on two topics in development economics: (1) the import-substitution strategy to development and (2) the debate on a balanced versus unbalanced growth strategy to development. John XXIII's unusually extended treatment of the agricultural sector (par # 123-56) is a moral commentary on the unfairness and the failed nature of the import-substitution strategy to development. As we well know from the history of development economics, this strategy generates numerous unintended adverse consequences for the agricultural sector. In effect, the farmers bear the full brunt and cost of industrializing the country. There is a hidden massive transfer of resources from the rural populations to select segments of urban citizenry, in particular the industrialists and their workers. Farm households are driven further into deeper poverty and national neglect.

At the same time, there is also debate within the field as to whether less developed countries should pursue a balanced growth or an unbalanced growth strategy. The former calls for a massive advance across all sectors that then provide a market for each other, thereby launching the country into a path of sustained growth. The implicit assumption here is that less developed countries (LDCs) are poor because they have small markets that fail to provide the requisite consumer base for industrialization (Nurkse 1953; Rosenstein-Rodan, 1943). On the other hand, unbalanced growth proponents dismiss this as unrealistic. These countries would not be poor to begin with if they have the resources to invest simultaneously across a broad range of industries as called for in the balanced growth strategy. These critics propose an alternative approach: Concentrate investments only in the critical sectors that can pull the rest of the economy with them. In other words, there is need to pick out *winner*s and provide them with preferential treatment (Hirschman 1958; Scitovsky 1959).

Mater et Magistra takes a firm position in both debates. John XXIII is critical of the import-substitution strategy to development because of its inequity. Development costs cannot be borne simply by a few. It is clear from this critique that he also favors the balanced growth proponents of that particular era. What makes John XXIII's encyclical particularly helpful for this segment of a course in development economics is the way it highlights a number of interrelated points that are critical for policymakers:

1. There is room for a larger government role in economic life given the increasing complexity of social life including greater interdependence in economic life. (This is subsequently being called the principle of socialization in CST literature.)
2. However, great caution must be exercised because government interventions in the wrong manner (as in the case of the anti-rural economic policies of import-substitution strategy to development) can cause more harm than good.
3. In the process of calling attention to the plight of the rural area and severely criticizing government's mishandling of the import-substitution strategy, John XXIII articulates a moral norm of CST: the principle of participation, or alternatively, the principle of mutual advantage where there is an equitable sharing in both the burdens and the benefits of living together as a community.

Mater et Magistra provides an excellent transition point to covering the export-promotion strategy to development. Fei, Ranis and Kuo (1979) provide empirical validation for this encyclical's principle of mutual advantage (or participation). Taiwan's remarkable success is an affirmation that growth and equity are not mutually exclusive. In fact, equity in distribution ensures the viability of sustained and stable long-term growth by developing much needed human capital.

## B. Development as a moral phenomenon

Populorum Progressio is an encyclical that is even more valuable to a course in development economics. It is very odd that a major social document is issued barely two years after the promulgation of Gaudium et Spes. There is urgency to Paul VI's social document because he wants to disabuse people of their incomplete notions of development. Development is not merely about emulating the lifestyle of the First World; development is not about approximating the same level of income and consumption as the wealthier citizens of the world. The central claim of this short, but powerful, papal document is that development does not exclusively, nor even primarily, pertain to an economic state of affairs; it is principally a moral phenomenon. Economic development is important and necessary, but it cannot be viewed as the end for which poor nations struggle and work so assiduously.

Even multilateral institutions that subscribe to the neoclassical school of economic thinking, such as the World Bank, acknowledge that genuine development has to be measured by

more than just economic variables. Hence, it has long been standard practice to supplement economic indicators, such as gross domestic product (GDP) per capita, with other measures like child and infant mortality, literacy rate and life expectancy. United Nations agencies have long used an array of social measures to gauge the growth and development of nations. What then is the unique value-added that Populorum Progressio brings to a required reading list for a course in development economics? It is the notion that genuine development has to be human and has to be integral. It is human and integral only in the measure that development is holistic (body, mind and spirit) and universal (no one excluded). In other words, it has to be a development of the whole person and every person.

Paul VI's short document is ideal for a course on economic development because it is the application of the anthropological presuppositions of Gaudium et Spes to the very specific question of the development of poor nations. Thus, in addition to Paul VI's work, it would be useful to assign Gaudium et Spes as part of the required reading list. Both social documents present a unique articulation of the basis for why everyone is deserving of economic advancement and why economic achievement cannot be viewed as an end but merely as a means to the further goal of integral human development for oneself and the larger community.

#### C. Other points of intersection

Many of Populorum Progressio's policy proposals are similar to the North-South discussions precipitated by the oil embargoes of the 1970s. A comparison of the Willy Brandt Report (Independent Commission on International Development Issues 1980) and Paul VI's document reveals the degree to which Populorum Progressio is acutely aware of many of the sentiments and hopes of the Third World nations.

Justice in the World and Octogesima Adveniens provide theological underpinnings for the World Bank's basic-needs approach to development in the 1970s. Relative equality borne out of a profound appreciation for the value of every human being is a theme that courses not only through these documents but through many of the multilateral poverty alleviation initiatives of that era.

Finally, by articulating the moral foundations of economic rights, Pacem in Terris provides students with a more rounded comprehension of why it is important to afford every person the opportunity of enjoying the fruits of economic growth. In addition to this, however, this social document on human rights also renders a good introduction to how economic development, or the lack thereof, has wide ripple effects on many other (non-economic) realms of human life. The Yale Task Force on Population Ethics (1974) is a helpful framework to use in this regard.

#### IV. International Economics

Of all the sub-fields in economics, international economics provides the most challenging, and the most fruitful venue for interaction between economics and CST. There is

no single major encyclical that is devoted to international economics although all the CST documents since Mater et Magistra address international economic relations in one form or another. On the other hand, international trade, of all the sub-fields, presents some of the most immediate and daunting moral dilemmas. Thus, CST and international economics can mutually enrich each other.

The contribution of CST lies in its battery of principles and norms that highlights (1) why certain outcomes and processes in international economics ought to be a matter of concern, and (2) how they ought to be resolved in a just manner. CST has conceptual tools that are useful in gaining a better understanding of many of the competing claims in international economics. On the other hand, international economics can push the envelope of CST even further because of the intractable nature of some of the problems presented. This forces CST practitioners to an ever deeper and more creative moral reflection on how to deal with new social problems.

Neoclassical economics sees goods and factor mobility as an essential prerequisite to attaining allocative efficiency and its accompanying benefits of sustained long-term growth and development. Thus, capital liberalization has led to the transfer of many First World factories to lower-cost overseas manufacturing platforms. Should we impede such transfers for the sake of preserving the livelihood of First World workers, many of whom will not be able to re-train for higher skilled jobs? To do so, however, would be to the detriment of Third World workers who desperately need jobs. Moreover, it also adversely affects the welfare of future generations. The modern Catholic social documents' principles of solidarity, primacy of labor principle, participation, and the universal destination of the goods of the earth would be very helpful in providing students with the different moral angles that must be weighed in this particular dilemma.

Larry Summers's infamous World Bank memo (Hausman & McPherson 1996, 9-16) on the export of dirty industries to the Third World may seem to be a cut and dried issue for many. And yet, for students of international trade, the economic arguments may appear to be not only impeccable but also compelling. For example, why should the recipient country's economic sovereignty (as consumers and as producers) not be respected if they would rather trade some of their health and clean environment for present income? Should poverty not be considered a form of economic coercion as well? Related to this is the issue of whether labor and environmental standards ought to be standardized across all nations to prevent a common *race to the bottom*. The tradition's principles of subsidiarity, socialization, preferential option for the poor, universal destination of the goods of the earth and the primacy of labor provide conceptual lenses to help students see and appreciate the limits of economic models and tools.

There are many other issues that can only be briefly mentioned in passing. Should Third World countries not have to pay patents on critical drugs? Should domestic workers enjoy the protection of tariffs and quotas to the detriment of consumers? Who should pay those who have been adversely affected by trade? Is there such an obligation to begin with? Should the OECD countries subsidize their agricultural sectors with consequent costs for Third World farmers? Should there be a free flow of labor across borders just as there have been liberalizations in the

free flow of goods, services and capital across borders in the last thirty years? Should there be a Tobin tax (Barrera 2000)? Should impoverished nations adhere to IMF adjustment policies that reduce fiscal deficits and restore macroeconomic balances even if the requisite deep cuts in social spending lead to even deeper destitution and suffering for the poor? Should firms downsize and renege on pension commitments in an effort to survive by matching the low-cost structure of foreign competitors? Should firms fire longtime employees in order to hire new, but cheaper, workers in an effort to stay competitive? To my mind, international economics provides the most challenging and fertile area of discourse and debate between economic theory and CST at this point in time. An excellent resource to use in this regard is Daniel Rush Finn's (1996) book Just Trading.

## V. Economic History

Economic history is a sub-field of the discipline that can be productively used to account for changes in the emphasis and focus of Catholic social teachings. In particular, economic history can be effectively used to trace the switch from the scholastic just price doctrine to the modern call for a living wage. Note that this is a shift from the scholastic attention to product markets to the modern tradition's preoccupation with labor markets.

In the medieval doctors' teachings on just price, the distributive dimension of price provides the principal reference point. Thus, it is necessary for prices in the product market to provide an adequate livelihood for the providers of such a good. In contrast, the principal concern in the modern industrial economy has been allocative efficiency, that is, ensuring that scarce factors are put to their most productive uses. It is the allocative dimension of price that takes precedence. Consequently, unlike the scholastic era, safeguarding workers' living wages now falls to extra-market mechanisms. Note that in the feudal era, such a living wage is achieved from within the market itself with the use of the just price.

Accounting for this shift in the focus of Catholic social teachings provides an excellent opportunity for showing students how economic history can be fruitfully used to examine changes in moral reflection and response. It is a good exercise in showing the value and contribution of the social sciences' analytical tools in understanding the history of this particular segment (economic ethics) of moral theology.

## VI. History of Economic Thought and Contemporary Economic Thought

There has been much dissatisfaction within the discipline of economics in the last decade. Numerous heterodox approaches have emerged to challenge neoclassical economics and provide alternative analytical lenses for accounting for economic phenomena. These competing schools of thought have profound ramifications for the shape and direction of public policy.

As the field changes and more universities and colleges are willing to hire heterodox economists, it is important for Catholic social thought to add its distinctive voice to these heterodox alternatives. Please note that CST is not a newcomer in this regard. The current

Association of Social Economists was originally founded as a society of Catholic economists. Moreover, it was one of the original founders of the Allied Social Sciences Association. It would be a tragic waste to see CST's voice drowned out within a rapidly expanding heterodox field. CST has its distinctive contribution to make in the field, and it is important to pass on this tradition to succeeding generations of economists.

In this regard, CST can be effectively incorporated into a seminar on contemporary economic thought or on the history of economic thought. CST norms and principles can provide a larger backdrop that sheds light on the limits of neoclassical analysis and tools for policy formulation. Moreover, by injecting CST in such a course on economic thought, the tradition's distinctive distributive criteria and principles can be contrasted with the A. K. Sen's *functionings and capabilities*, Rawls's justice as fairness and Nozick's rights-based entitlements. CST provides an occasion for a comparison of Christian anthropology with neoclassical homo oeconomicus.

## VII. Summary and Conclusions

Barrera (2001) provides a fuller discussion and illustration of the abovementioned points of intersection between CST and an economics curriculum. In particular,

1. For microeconomic theory, see pp. 307-313 on the welfare losses of a monopoly-monopsony outcome of Quadragesimo Anno's industry-level vocational groupings. For the framework of full employment at a living wage, see pp. 306-307.
2. For the import-substitution strategy to development, see pp. 15-32.
3. For development economics and relative equality, see pp. 33-56.
4. For economic history and its ability to account for shifts in Catholic social teachings on economic life, see pp. 57-116.
5. For economic thought and the comparison of homo oeconomicus and CST's anthropology, see pp. 117-174.
6. For contemporary economic thought, see pp. 175-246 for a constructive proposal on the possible shape of postindustrial CST.

In familiarizing economics majors with the method, content and spirit of Catholic social teachings, students get to appreciate the limitations of neoclassical models, tools and theory for policy formulation and implementation. At the same time, they also get a better sense of how Catholic social thought can be improved further in its teachings on economic life.

There is both great urgency and opportunity in incorporating Catholic social teachings in an economics curriculum. In the first place, surveys of the membership of the American Economic Association consistently indicate that substantial numbers of economists ultimately end up, whether directly or indirectly, in policy formulation or implementation. Second, the discipline is increasingly open to introducing students to heterodox economics. Of the various religious traditions, CST has the most sustained and developed economic ethics and therefore stands the best chance of articulating the unique contributions of religious thought to economic analysis. Third, neoclassical economics has acknowledged the importance of the notion of social capital in economic analysis and policy and is grappling at present to define what it means. This is an opportunity for CST to join the discourse in its nascent period.

In closing, it is also worth noting that by incorporating CST in an economics curriculum, not only do we keep undergraduates apprised of how moral theology fits in with their profession, but we also ensure that those who eventually move on for PhD training and eventually become economics professors themselves are familiar with the potential contribution of Catholic social thought to economics.

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#### ENDNOTES

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1. The three other possible permutations being (1) a product market monopoly with a free factor market, (2) a free product market with a monopsony, and (3) a free product and factor market.