

What can Economics Add to a Catholic Perspective on Poverty and Development?

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INTRODUCTION

I would like to talk about what economics can add to the Catholic perspective on poverty and development. As pointed out so clearly by Professor Paolo Carozza, we know that Catholic Social Teaching can add much to economic thinking.¹ For example, mainstream economists have an undeveloped philosophy of the person with our almost exclusive focus on the individual and our limited focus on the social nature of the person. Also an economist's view of the common good is frequently reduced to an overly simplified utilitarianism of achieving the most good for the most people. While we economists may have a limited understanding of the human person and the common good, I still feel that we still have something to contribute. My thesis is that economics can highlight the importance of two fundamental concepts of Catholic Social Teaching, namely the principles of subsidiarity and solidarity, in the development and application of policies designed to address concrete economic problems associated with poverty and development. Furthermore, economists can also give a more nuanced understanding of how to integrate these two principles into the service of the common good.

While subsidiarity and solidarity are not words that economists normally use, the concept of the common good is, however, at the heart of what economics is all about. Both economics and Catholic Social Teaching share a serious interest in promoting the common good. Economics was founded by a moral philosopher, Adam Smith. His aim was to organize society in such a way that best promotes the common good and not the narrow interests of a few. The common good is the ground where both economics and Catholic Social Teaching can have a very serious conversation. While Catholic Social Teaching has a longer and deeper tradition of

¹ Paolo G. Carozza, "Talk on A Catholic View of Development," CAPP Conference on Poverty and Development: A Catholic Perspective," Fordham University, September 27, 2014.

defining the common good and motivating the pursuit of it, economics has devoted much effort to developing concrete economic proposals on how best organize contemporary society to promote the common good, or more concretely for the purposes of this conference, economic policies designed to transform impoverished and violent communities into prosperous and peaceful societies.

In the rest of my talk I will first give some theological reflections on the common good and then I will view it from the perspective of an economist. Traditionally economists have focused on five different areas – growth, equity, pluralism, order, and governance – as the essential factors needed to promote a peaceful and prosperous society.² Given the constraints of this short essay I will have only have enough space to focus on the first two – growth and equity. I will argue that mainstream economic thinking on growth aligns with the principle of subsidiarity, while mainstream economic thinking on equity aligns with the principle of solidarity. In my conclusion I will summarize my contention that economics can give us a better grasp of how to achieve the common good through a more nuanced integration of the Catholic Social Teaching principles of subsidiarity and solidarity.

THEOLOGICAL REFLECTIONS

I hope to present here a short theological reflection on the common good based on my reading of the Beatitudes. It would be impossible to summarize the richness of the theology and the philosophy behind the Catholic understanding of the common good in such a small space. But perhaps just a short reflection on the heart of Catholic Social Teaching, the Beatitudes of Our Lord, will allow us some insight into the depth and breadth of what Catholic Social Teaching understands when it speaks of the common good.

I see the Beatitudes as the fruit of our Lord's prayer with his Father. Given his location in history and in time, I believe that Our Lord frequently prayed over the Psalms. In particular, because of their strong ties to the Beatitudes, I believe that Our Lord paid particular attention to Psalms 37 and 73. These two psalms reflect a very important development in the theology of the Old Testament, the tension between the older literatures of Traditional Wisdom versus the newer

² These five areas of concern are based respectively on the five books of Adam Smith (1976). *The Wealth of Nations*. The University of Chicago Press.

literatures of Speculative Wisdom.³ Traditional Wisdom sees an ordered world where injustice is punished and the righteous are vindicated. In many ways this view parallels a mainstream economist's view of a properly incentivized and competitive market system where individuals striving to actualize their own potentialities through the acquisition of food, shelter, clothing and other material goods are also able to achieve what is optimum for society as a whole. But Psalms 37 and 73, in the tradition of Speculative Wisdom, address a broken and disordered world where the "wicked prosper" (Psalm 73: 3). In many ways, this view also parallels a mainstream economist's view – not of a properly functioning economic system, but rather of a disordered system where the few dominate the market for their own gain and at the expense of the wider society, namely economic systems of monopoly, oligopoly and cronyism.

Our Lord's Beatitudes certainly stand in this Wisdom tradition, addressed to those harmed by a disordered society and economy – the poor, the mournful, the hungry and the persecuted. But the Beatitudes also expands the Wisdom tradition with its particular call to action – be meek, merciful, pure, and peaceful in the face of a disordered world. The Beatitudes can also expand our understanding of the common good. They privilege the poor, the mournful, the hungry and the persecuted in our definition of the common good. And the Beatitudes privilege the way of the meek, the merciful, the pure and the peaceful in achieving the common good or, in the deeper words of Our Lord, the Kingdom of God.

But the concept that I find the most fruitful in the Beatitudes is "righteousness." Among the eight Beatitudes, Our Lord uses it more than any other concept besides "blessed" or "happy." It appears to be the New Testament concept that is the closest to describing what we his followers today might call the common good. Depending on which English translation of the Bible you are using, "righteousness" may be translated as "justice" or as "truth," adding additional dimensions of what we mean by the common good.

How our Lord's call to "righteousness" is implemented today varies around the world. After the Second Vatican Council and for many dioceses throughout the world as well as the Vatican, Our Lord's call to "righteousness" has been focused through commissions named "Peace and Justice." Among the Jesuits since their 32nd General Congregation it is the mission of integrating both "Faith and Justice." In Africa, I have noticed the common use of the phrase

³ E. Murphy Roland O. Carm. (2002). *The Tree of Life: An Exploration of Biblical Wisdom Literature*, 3rd Edition. William B. Eerdmans Publishing Company.

“Peace and Development” and in South Africa the phrase is “Truth and Reconciliation.” And there is an older, but still a very vibrant tradition of naming most Catholic charitable organizations by the Latin word “Caritas” or as I like to translate it – tender loving mercy. And now perhaps Pope Francis, with his emphasis on the “Joy of the Gospel,” would want us to focus on the word Our Lord uses the most in the Beatitudes – “Happy” or “Blessed.” From Pope Francis’ writings, an essential component of the common good would be joy.⁴ Clearly in Catholic Social Teaching there is a rich tradition that informs our understanding of the common good beyond a narrow technical economic understanding of a mathematical aggregation of individual measures of welfare based on material consumption.

ECONOMIC REFLECTIONS

I now intend to give some economic reflections on the common good. While we economists may be limited in our understanding of what the common good is and why we desire it, I believe that we might have something significant to contribute on how to achieve it in our contemporary world, or namely how to maximize what economists traditionally call social welfare. Mainstream economists in the tradition of Adam Smith have focused on the following five activities to promote the transformation of violent and impoverished communities into prosperous and peaceful societies – economic growth, equity, political pluralism, good order, and good governance. Let me now speak to the two more closely associated with economics – growth and equity – and leave the other three that are more closely associated with political science – pluralism, order and governance – to another paper.⁵

Growth

In the Anglo-American tradition economic growth is focused on the individual person. Starting with Adam Smith and in the view of many mainstream economists, economic growth begins with labor productivity. How do you make a person as a worker more productive? Increases in labor productivity are certainly facilitated by access to a larger market and a regime of stable prices and sound macroeconomic policies. And economic growth can be severely damaged by conflict and the absence of a well governed society. But the key driving force of

⁴ Pope Francis (2013), *The Joy of the Gospel*. Apostolic Exhortation on Vatican website, www.vatican.va.

⁵ For a description of what happens to development when there is an extreme breakdown in order and governance see Romeo Dallaire (2003). *Shake Hands with the Devil: The Failure of Humanity in Rwanda*. Da Capo Press.

growth in this tradition is the individual's pursuit of well-being. Or as a Thomist philosopher might put it, the actualization of a person's potentialities is the key driving force behind the economic advancement of society.⁶ This view of economic growth is an argument in favor of subsidiarity. Individuals require a sphere of freedom where their human energy for creativity and innovation can flourish.⁷

Such a view of economic growth, however, was seriously challenged during much of the 20th Century. Among economists it was known as the Cambridge-Cambridge debate and it drove much of the ideological thinking behind the Cold War between the United States and the Soviet Union. Many of the proponents of the then dominant Harrod-Domar model of growth⁸ were based at Cambridge University in the UK. They argued that the process of growth was extremely unstable as evidenced by the Great Depression of the 1930's. They also argued that the key source of growth was increased savings that would lead to the formation of larger stocks of capital capable of producing more and more of the material needs of society. Since economic growth was inherently unstable, the market needed to be replaced by a system of centralized planning. And at the expense of present day consumption, the state planners would set high levels of savings to insure high capital formation thus ensuring economic growth and future economic prosperity. If you know your history, you know that this view of central planning and capital formation was adopted by the Soviet Union, China, and India and became the dominant economic view after World War II in most of the developing world. You also know that this system of forced savings also created severe deprivation among large segments of the population living under Soviet and Chinese rule.

The alternative view had its home in another Cambridge, namely at the Massachusetts Institute of Technology in Cambridge, Massachusetts. Its leader was Robert Solow who will go on to win the Nobel Prize for his work.⁹ He argued that a market economy was flexible and could adjust to external shocks. This led to the conclusion that growth was a stable process and did not require a state controlled system of central planning. He also argued forcibly that innovation and not capital formation was the key source of growth. Capital formation would lead

⁶ W. Norris Clark, S.J. (2002). *The One and the Many*. University of Notre Dame Press.

⁷ The great original scholar on entrepreneurship and "creative destruction" is Joseph Schumpeter (1950). *Capitalism, Socialism and Democracy*. Harper & Row.

⁸ R. F. Harrod (1939). "An Essay in Dynamic Theory," *The Economic Journal* XLIX and E. Domar (1946). "Capital Expansion, Rate of Growth, and Employment," *Econometrica* 14:137-147.

⁹ Robert Solow (1988). "Growth Theory and After," *American Economic Review* 78:307-317.

to only a temporary spurt of growth. Growth over the long run required innovation and new technology. Once you say that innovation and new technology are the key source of growth, it has implications on how you organize society. You no longer need a large state bureaucracy to implement a system of centralized planning. Instead, society needs a limited government that creates space for individuals and small groups to innovate and come up with new ideas from transistors and semiconductors to personal computers and new apps. In 1989 with the fall of the Berlin Wall the role of free markets has come to dominate most economic thinking.

While the important role of free markets and individual incentives are well recognized, there still continues to be a contemporary debate on the proper role of government in development, should it be in the foreground or the background of development efforts.¹⁰ The two primary protagonists in this debate are Jeffrey Sachs at Columbia University and William Easterly at New York University. Dr. Sachs' famous book, *The End of Poverty*, argues for large international efforts to fight world poverty.¹¹ He sees a great need for infrastructure and other large scale projects in the developing world. His writings would be very supportive of contemporary efforts at the United Nations in support of the UN's Millennium Development Goals. Dr. Easterly, on the other hand, does not have much confidence in large scale government development efforts. His most famous book, *White Man's Burden*, argues for the correct setting of incentives and the vital role that individuals and small groups play in attacking the roots of poverty around the world.¹² While there is a role for government at the national and international levels, the importance of individuals and small groups operating freely in civil society according to the concept of subsidiarity has become the dominant idea championed by many mainstream economists as the critical factor needed to ferment economic growth for the wider society.

Equity

The fair distribution of the material goods of the world is another major concern of economics. The contemporary popularity of Picketty's book, *Capital in the Twenty First*

¹⁰ Economists argue for a limited government not only to provide space for the private sector, but also for civil society. Many economists do not fully appreciate the invaluable role that civil society plays in supporting the common good. An important contribution in this field is Luigino Bruni and Stefano Zamagni (2007). *Civil Economy: Efficiency, Equity, Human Happiness*. Peter Lang Press.

¹¹ Jeffrey Sachs (2005). *The End of Poverty: Economic Possibilities for our Time*. The Penguin Press.

¹² William Easterly (2006). *White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*. The Penguin Press.

Century, is the latest in a long line of economic writings with a strong interest in inequality dating back to at least Adam Smith.¹³ In 1776 Smith wrote that “[the] oppression of the poor must establish the monopoly of the rich.” Just as Smith’s *Wealth of Nations* is a defense of free and competitive markets, it is equally also an attack against monopolies or what today many would call crony capitalism where access to lucrative markets is restricted to a few with the needed political connections. For more than two centuries, mainstream economists have railed against such monopolistic practices detailing how these practices benefit only a privileged few by harming the poor and usually at a very high cost to society overall. Monopolistic practices not only harm society’s present welfare by unnecessarily limiting the provision of needed goods and services, but also its future welfare by distorting investment decisions. Monopolies provide a profitable safe haven for poor managers and inefficient businesses that then attract scare investment funds into inefficient activities that undermine future gains in productivity and in economic growth.

The solutions to crony capitalism are all very much in the spirit of the Catholic Social Teaching principle of solidarity, when society needs to unite to defend human dignity and the common good in the face of a systematic injustice. Solutions have ranged from the more passive action of simply removing government imposed restrictions on market entry so that the natural pursuit of business opportunities among competitors can blossom and lead to the widespread provision of needed material goods. Or it may require the more active action of government enforcement of anti-monopoly laws. In more complicated situations that economists label as market failures, governments have had to accept the existence of monopolies but find innovative ways to mitigate their damage. Government agencies regulate natural monopolies to prevent price gouging and use patent law that allow temporary monopolies to promote innovations in science and medicine while eventually enabling the widespread distribution of these new technologies at their lowest cost. In all these cases, acting under a spirit of solidarity, society as a whole, usually through government, acts to defend the common good of society.

Not all societies have the ability to confront the entrenched interests of unjust economic systems like crony capitalism. Hence there is also a growing interest in promoting political pluralism (frequently called “democratization”), conflict resolution and good order, and in good governance. Along with growth and equity each of these three factors are seen as critical in

¹³ Thomas P. Piketty (2014). *Capital in the Twenty-First Century*. Harvard University Press.

promoting the transformation of impoverished and violent communities into prosperous and peaceful societies.

CONCLUSION

In this essay I have aligned the pursuit of economic growth primarily with the principal of subsidiarity, the need to create a sphere of freedom where creative individuals and small groups have the incentive to experiment with innovative ideas. I have also aligned the pursuit of economic equity primarily with the principal of solidarity, the need for society as a whole to unite and act against systemic economic injustice. In this way economics can suggest many concrete applications of these two principles of Catholic Social Teaching. But what might be of more significance is how economics can also shed light on how these two principles are mutually reinforcing.

From an economic perspective subsidiarity or solidarity is not a principle that checks or counters or opposes the excesses of the other principle. Rather, society achieves the common good when the principle of subsidiarity or solidarity is used in a way to strengthen the other principle. For example, aligned with the principle of subsidiarity, economists argue in favor of free and competitive markets to provide the sphere of freedom needed for individual and small groups of entrepreneurs to be creative and innovative. The resulting increases in productivity and economic growth should benefit all of society and strengthen the foundations of solidarity. Aligned with the principle of solidarity, economists argue for society to unite and implement appropriate government policies, laws, and regulations against crony capitalism and the monopolization of markets. The resulting breakup of special monopolistic privileges serves the principal of subsidiarity by also creating the space for individual and small groups of entrepreneurs to take advantage of the opening of these markets to actualize their own individual potentialities. Ideally, while solidarity is strengthening subsidiarity, subsidiarity should be strengthening solidarity all in pursuit of the common good at the service of human dignity.