CARITAS IN VERITATE AND THE MARKET ECONOMY[1]

• **Andrew V. Abela** •

"The liberal worldview needs to be countered with a message that is more imaginatively appealing, perhaps beginning with what is common among us all, that we are 'restless to be loved and to love.'"

Caritas in veritate offers some powerful ideas that can help diagnose and address the economic ills that have been plaguing the world's economies for the past few years. These ideas are a challenge to much of contemporary economic theory and therefore may not be adopted very readily. In this paper I would like to suggest what I think are some of these ideas, identify obstacles that may interfere with their widespread adoption, and outline in a very preliminary form some ways to address these obstacles.

1. Contributions of Caritas in veritate *to business and economic theory*

1a. Integral human development

The idea of "integral human development," that economic development should concern the whole person, including his

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spiritual needs, was developed in Pope Paul VI's encyclical *Populorum progressio* (cf. n. 14) and is taken up in *Caritas in veritate*. What this idea corrects is the narrow understanding of human flourishing that is embedded in contemporary economic theory.

Stefano Zamagni, an Italian economist and a leading scholar on the Economy of Communion phenomenon, has made an extensive study of the history of the Italian economy, and particularly of the period during the late Middle Ages through the Italian Enlightenment. This period is significant because of "its conception of the market as a place centered around the principle of reciprocity and civil virtues."[2] He and coauthor Luigino Bruni describe the subsequent narrowing of focus:

> . . . from Bentham onwards, the classical concept of happiness as "eudaimonia" has been reduced to utility. This reductionistic move is . . . the most serious cause of the impoverishment of contemporary economics [because] to define economics as the "science of utility" has deprived economists of the categories of thought necessary for properly tackling the new characterizations of social interaction—relationality, reciprocity, and identity—phenomena that cannot be ignored even by mainstream economic analysis.[3]

Against this reductive view, the pope asserts that "authentic human development concerns the whole of the person in every single dimension. Without the perspective of eternal life, human progress in this world is denied breathing-space"(11). This eternal perspective pulls us out of the narrow utilitarian view.

1b. Gratuitousness and reciprocity

The next two ideas, which are closely associated with each other, are gratuitousness and relationality. Together they offer a way for the market economy to build rather than erode social cohesion. The pope writes that:

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[2] S. Zamagni and L. Bruni, *Civil Economy: Efficiency, Equity, Public Happiness* (Bern, Switzerland: Peter Lang, 2007), 13.

[3] Ibid.

> action is required not only on improving exchange-based transactions and implanting public welfare structures, but above all on gradually increasing openness, in a world context, to forms of economic activity marked by quotas of gratuitousness and communion. (*CV*, 39)

What kind of economic activity is marked by gratuitousness, or generosity? Economic activity that is based upon reciprocity, not just exchange of equivalents.

Zamagni, writing about the Economy of Communion, defines reciprocity by distinguishing it from altruism, on the one hand, and exchange of equivalents (e.g., market exchange) on the other.

In our current society, we tend to categorize every transfer of value as either altruism or market exchange. The altruist gives because he sees the recipient as helpless, and this can be perceived as demeaning to the other, when "it creates dependency in the one who receives."[4] Market exchange requires an exact equivalence between what is exchanged—i.e., a fair price should be charged/paid for whatever is bought/sold. Reciprocity, by contrast, recognizes that both the giver and the receiver are putting something into the relationship, even if their contributions are wildly "unequal," and therefore allows for exchanges that are neither altruistic nor exchanges of equivalents.

This is illustrated in the activities of the firms that comprise the Economy of Communion, where it is not uncommon to pay more than the market value of someone's work, or to ask for less than the market price for one's own goods, for the purpose of promoting the common good. While such exchanges are something other than market exchanges, they are not "altruistic," because the economic beneficiary of such an exchange is also contributing something (strengthening a relationship, for example), even if that contribution is not strictly "equal" in economic terms. As a result, the Economy of Communion demonstrates that

> the market, under a very precise condition, can become an instrument which can reinforce social ties, favoring both the promotion of practices of wealth distribution through its mechanisms . . . and the creation of an economic space in which

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[4]L. Bruni, *The Economy of Communion: Toward a Multi-Dimensional Economic Culture* (Hyde Park, N.Y.: New City Press, 2002), 132.

> it is possible to regenerate those values (such as trust, sympathy, benevolence on which the existence of the market itself depends (134). . . . The Economy of Communion offers a practical demonstration that it is possible to *give without losing and take without taking away*. (139–40)[5]

Benedict highlights this point in *Caritas in veritate*, that gratuitiousness and reciprocity are not simply pious (and optional) additions to a well-functioning economy, because

> if the market is governed solely by the principle of the equivalence in value of exchanged goods, it cannot produce the social cohesion that it requires in order to function well. (*CV*, 35)

Since the market depends upon virtues of trust, perseverance, and honesty—none of which it fosters by itself—gratuitousness and reciprocity are necessary for the long term survival of the market.

1c. Usury

A recovery of the Church's teaching on usury, though barely hinted at in the encyclical, would provide some desperately needed original thinking to the world of finance. There is a single reference to usury in the encyclical:

> The weakest members of society should be helped to defend themselves against usury. (*CV*, 66)

What is interesting, though, is that the word appears at all. This is the first time since *Rerum novarum*, as far as I can tell, that the word has appeared in a social encyclical.[6] In a recent issue of *Communio*,

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[5]Ibid.

[6]"Hence, by degrees it has come to pass that working men have been surrendered, isolated and helpless, to the hardheartedness of employers and the greed of unchecked competition. The mischief has been increased by rapacious usury, which, although more than once condemned by the Church, is nevertheless, under a different guise, but with like injustice, still practiced by covetous and grasping men" (*Rerum novarum*, 3). The *Catechism of the Catholic Church* makes two passing references to usury (2269, 2449), and the *Compendium of the Social Doctrine of the Church* has a paragraph on it (341).

Thomas Storck made a strong case that the Church has never withdrawn her condemnation of usury, and that it is therefore still applicable today.[7]

Hilaire Belloc defined usury as demanding interest on a loan for some non-productive activity. He explained that usury is unjust because since the money lent is not used to generate more money, the lender in extracting interest is enriching himself at the expense of the borrower, which is a form of theft.[8]

Were it ever to be taken seriously again, the prohibition against usury would have enormous implications. If charging interest on loans for non-productive activity became socially and legally unacceptable, then: consumerism, which is fueled largely by consumer debt, would probably be much reduced; poverty would be alleviated, because in general the wealthy (who have money) lend to the poor (who do not) and so usury provides a constant transfer of wealth from the poor to the rich; and war—the ultimate non-productive activity—could not be undertaken so easily, because instead of borrowing the funds needed, taxes would have to be raised.

2. Likely obstacles

There are a number of obstacles to the adoption of the ideas set forth in *Caritas in veritate*. Three in particular arise from the fact that economics as a field, like most of social science, is deeply ensconced in a liberal worldview, with all that entails, including a rejection of transcendent moral norms and a blindness to its own metaphysical assumptions.[9]

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[7] T. Storck, "Is Usury Still a Sin?" *Communio: International Catholic Review* 36, no. 3 (Fall 2009).

[8] H. Belloc, *Usury* (London: Sheed and Ward, 1932). Storck provides a contemporary justification for the prohibition of usury based on Fr. John A. Ryan's idea of the limits to the legitimacy of profit, while implicitly disagreeing with the justification offered by Hilaire Belloc. I believe that there are problems with Ryan's view of profits, and that Belloc's approach provides a more sound basis for the condemnation of usury, which is why I use it here, but the difference between the two views is beyond the scope of this paper.

[9] Cf. David L. Schindler, "The Anthropological Vision of *Caritas in veritate* in Light of Economic and Cultural Life in the United States," *Communio: International Catholic Review* 37, no. 4 (Winter 2010).

2a. Dominance of rational choice theory

The first obstacle arising from this liberal worldview is the dominance of what is called "rational choice theory" in economics. This is the theory that human beings act as if trying to minimize costs and maximize benefits. Quoting Bruni and Zamagni again,

> the theory of rational choice has acquired an actual "paradigmatic privilege": every other explanation of . . . [human] behavior has to "reckon" with that point of departure. Thus, for example, while one is forced to explain why someone gives a gift, non-tuistic [self-centered] behavior is accepted as completely natural and requires no explanation. (256–57)

This "privilege" makes it difficult to introduce concepts such as integral human development, gratuitousness, or reciprocity into economic theory.

And not just into theory. A number of empirical studies suggest that students of economics tend to become more selfish the more they study economics—likely because they begin to believe that rational choice theory is an accurate description of the human condition.[10] In addition to this, Andrew Yuengert, economist and former President of the Association of Christian Economists, points out a

> common misunderstanding about markets [which] does not show up in the academic literature but is common among students. When asked to reflect on an ethical issue in markets, students often argue that, since competition among self-interested individuals in markets can result in certain desirable social outcomes, individuals are *obligated to act self-interestedly* in markets. This is a strange reversal of the argument that personal vice can be turned to public benefit in markets. The common claim that even purely self-interested motives can promote good outcomes in markets does not imply that only pure self-interest will promote public benefits.[11]

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[10]Cf. Y. Bauman and E. Rose (2009), "Why are economics students more selfish than the rest?" (Working Paper), http://www.econ.washington.edu/user/erose/BaumanRose_Selfish_02Dec09.pdf.

[11]A. Yuengert, "Two Barriers to Moral Agency in Business Education," *Logos* 13, no. 3 (2010): 49, emphasis added.

And yet this appears to be a very strongly entrenched belief.

But perhaps the biggest problem with rational choice theory as an obstacle to the insights in *Caritas in veritate* is that it appears to work. Its use in mathematical models in economics gives reasonably robust predictions of human behavior, so economists are not inclined to give it up.

2b. Capitalism or socialism as the only alternatives

The second obstacle arising from the dominance of the liberal worldview is the belief that there are only two stable economic orderings: capitalist or socialist. In Benedict's words, the "continuing hegemony of the binary model of market-plus-State has accustomed us to think only in terms of the private business leader of a capitalistic bent on the one hand, and the State director on the other" (41).

Yet neither of these two alternatives is entirely acceptable to Catholics. The social encyclicals are quite clear in their condemnation of socialism, primarily because of its hostility to private property, the vital importance of which is emphasized repeatedly.[12] Their acceptance of capitalism, on the other hand, is sharply qualified. It is worth recalling here the exact words of Pope John Paul II in *Centesimus annus*, answering the question whether capitalism should be the goal of the formerly Communist countries:

> If by "capitalism" is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, even though it would perhaps be more appropriate to speak of a "business economy," "market economy" or simply "free economy." But if by "capitalism" is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality, and which sees it as a particular

[12]On socialism cf. *Rerum novarum*, 15, *Quadragesimo anno*, 120, *Sollicitudo rei socialis*, 15, *Centesimus annus*, 41 and 48; on private property cf. *Rerum novarum*, 6, *Quadragesimo anno*, 45, *Gaudium et spes*, 71, *Laborem exercens*, 14, *Centesimus annus*, 30, and the *Catechism of the Catholic Church*, 2402.

> aspect of that freedom, the core of which is ethical and religious, then the reply is certainly negative. (*CA*, 42)

In *Caritas in veritate*, Pope Benedict affirms both the value of the market, as an "economic institution that permits encounter between persons" (35) for the purposes of exchange, and of the principle of subsidiarity, as "the most effective antidote against any form of all-encompassing welfare state" (57).[13]

Why does this "binary model of market-plus-State" persist? Perhaps it is because of a fear that any modification to the market economy is a violation of subsidiarity that will lead necessarily to socialism. Ironically, this fear, while superbly sensitive to the importance of subsidiarity in *government*, seems to be blind to its necessity in *business*. Champions of the market economy are hostile to big government but appear to have no problem with big business. And yet, as Hilaire Belloc argued almost a hundred years ago in *The Servile State*—and as did Friedrich Hayek forty years later in *The Road to Serfdom*, where he gave credit to Belloc for first making the argument—big business leads invariably to bigger government.[14]

And the result is a mess that is neither free nor very well regulated, the "crony capitalism" we have today. This menacing alliance between big business and big government results in an economy where in too many cases government connections and lobbying become as important to economic success, if not more so, than competing successfully to serve customers in the marketplace.[15]

So the question becomes what kind of market economy is consistent with the principles articulated in *Caritas in veritate*—what sort of regulatory framework should we be looking for? And this is where we run into a bit of a wall, because the history of regulation

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[13]I think it is interesting that *Caritas in veritate* does not use the word "capitalism," not even once [although it does say "capitalistic" once, in the quote I just gave]—because that word "capitalism" is far more loaded and problematic than the phrase "market economy."

[14]H. Belloc, *The Servile State* (Indianapolis: Liberty Fund, 1913/1977), and F. Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944/1994).

[15]Cf. Luigi Zingales (2009), "Capitalism After the Crisis," *National Affairs* 1 (Fall 2009).

of business by government does not make one very optimistic. This is largely because of a phenomenon that has come to be known as "regulatory capture."[16] Regulatory capture is the theory that says that any regulation will eventually be "captured" by those it was intended to regulate, so that it operates to their benefit. This is because the interest of the regulated firms in the outcome of regulation is very great, since it is an important factor in their growth and profitability. They tend to be large in size and few in number, and thus easily organize to coordinate their lobbying efforts. The consumers whom the regulation is intended to protect, on the other hand, are vastly more numerous and have plenty of other things to worry about. As a result of this imbalance in political pressure, over time regulation is turned to serve the benefits of the regulated. It would seem therefore that we are doomed, in modern society, to be tyrannized by this combination of big business and big government.

2c. Necessity of large scale enterprises

The third and final obstacle to adopting the insights from *Caritas in veritate*, I would like to suggest, is related to the second one. It is the belief that in an age of advanced technological warfare, we *need* those large corporations, especially the ones in the military-industrial complex, to produce both the weapons and the wealth necessary to afford them, in order to provide for our national defense.

Those of us who have sympathy for the distributist vision of Belloc and Chesterton tend to hold, perhaps even unconsciously, the image of the Shire in Tolkien's *The Lord of the Rings* as an ideal economic and political arrangement, for men as well as for hobbits. But we forget, perhaps, that even the Shire could not exist as it did but for the protection of the Rangers, the *Dunedain*, who dedicated themselves to guarding its borders, unrecognized and unthanked. And so, even if in some ideal future we were able to scale everything down to a more human scale, we would still face this problem of how to defend ourselves.

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[16] G. Stigler (1971), "The theory of economic regulation," *Bell Journal of Economics and Management Science* 2:3–21.

3. Possible response

3a. Anthropological vision

I will close by proposing, in a very preliminary way, some suggestions for overcoming these obstacles. The first suggestion is to bring the rich anthropological vision of *Caritas in veritate* to bear upon economic theory. Rational choice theory does impose serious limits to economic analysis, and economists are aware of this. They should therefore be open to expanding their models of human behavior; the Christian anthropological vision, as a true vision of human nature, should be able to help economic analysis by allowing economists to make more accurate predictions about human behavior.

Tibor Scitovsky, an American economist who taught at Stanford from the 1940s to the 70s, later in his career wrote a book called *The Joyless Economy*, where he criticized many of the anthropological assumptions of economics. He wrote that we

> have gotten out of the habit of seeking the cause of our troubles in ourselves. This was an approach popular in past, more religious ages, which focused their attention on man's transgression of the Laws of God. We gradually dismantled the Laws of God and came to believe in man as the final arbiter of what is best for him.

One problem with this, according to Scitovsky—and not the least, certainly—was that it

> set back by generations all scientific inquiry into consumer behavior, for it seemed to rule out—as a logical impossibility—any conflict between what man chooses to get and what will best satisfy him.[17]

So these reductionistic theories are not just morally problematic, they are also just not very good *theories*.

Yuengert is worth quoting at length here, on how economic theory does not explain very well the behavior of entrepreneurs.

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[17]T. Scitovsky, *The Joyless Economy* (New York: Oxford University Press, 1976/1992), 4.

> Most real markets are full of niches, such as geographic, brand, and service niches. Long-term relationships with customers and suppliers, barriers to entry, and the unique skills and talents of workers and employers create "economic rents"—that is, profits that are not easily competed away. They can provide a space . . . to give rein to an employer's desire to more fully include the interests of employees and other stakeholders in his business decisions.
>
> Mainstream economics can easily miss the room for moral agency in economics because it often ignores the reality of imperfect competition and lacks an analytical language to describe the challenges and contributions of entrepreneurs. An entrepreneur specializes in making things happen in the messy, uncertain environments in which businesses operate. There is little room for the entrepreneur in economics, since the messy, uncertain details of business have been assumed away—we assume that everyone knows what the demand curves and cost curves look like, and new products, technologies, and business organizations come into being magically, without any entrepreneurial enterprise.[18]

Recent research about entrepreneurs, in fact, has started to recognize what is distinctive about entrepreneurial behavior. An article in the *Journal of Marketing* concluded, after studying the decision-making processes of a couple of dozen entrepreneurs, that rather than trying to forecast their way through an uncertain future, entrepreneurs are more likely to attempt to "co-create" (their word) the future "through commitments with a network of partner, investor, and customer stakeholders."[19]

This openness to questioning the reductionistic anthropological assumptions in business and economic theory can provide an opportunity to introduce elements of a Christian anthropology, including gratuitousness and reciprocity. And in fact there are a number of very encouraging efforts in this area. First are efforts to recover some of the richer aspects of economic history that appear to have been forgotten. The work of Zamagni and Bruni has already been mentioned. Also worthy of note are John Mueller's recent book

[18]Yuengert, "Two Barriers to Moral Agency in Business Education," 48–49.

[19]S. Read, N. Dew, S. Sarasvathy, M. Song, and R. Wiltbank, "Marketing Under Uncertainty: The Logic of an Effectual Approach," *Journal of Marketing* 73 (May 2009).

Redeeming Economics, where he integrates the anthropological insights of Aristotle, Augustine, and Aquinas into economic theory, and the work of Dr. Maria Sophia Aguirre on integrating the family and relationality into economic theory. Economists find their mathematical models to be very useful; what is needed is to show them how to incorporate a richer and more human anthropology into such analysis.

3b. Subsidiarity in regulation

The second possible response to the obstacles mentioned above is to draw a sharp distinction between regulation that follows the principle of subsidiarity, and regulation that doesn't, particularly for the financial sector. In a recent article, Professor Luigi Zingales of the University of Chicago noted how, in Europe, being "pro-business" and "pro-market" tends to mean the same thing, while in the U.S., at least until recently, the two were very different movements.

> Most lobbying is pro-business, in the sense that it promotes the interests of existing businesses, not pro-market in the sense of fostering truly free and open competition.[20]

Most lobbying is part of the regulatory capture phenomenon mentioned above. Zingales points out that regulation of banking in the U.S. used to be pro-market, but not pro-business. It tended to put heavy restrictions, for example, on the number of branches a bank could have, and limits on both intra- and interstate banking. Notice that these limits were all consistent with subsidiarity; they tended to keep banking small and local.

He argues that the deregulation of banking in part led to the crises we have been experiencing, but he is very pessimistic about the path that *re-regulation* is taking

> to soothe the popular rage with measures like limits on executive bonuses while shoring up the position of the largest financial players, making them dependent on government and making the larger economy dependent on them. Such measures play to the crowd in the moment, but threaten the financial system and the

[20]Zingales, "Capitalism After the Crisis."

> public standing of American capitalism in the long run. They also reinforce the very practices that caused the crisis. This is the path to big-business capitalism: a path that blurs the distinction between pro-market and pro-business policies.[21]

Note well the difference: while earlier regulation was *consistent with* the principle of subsidiarity, current attempts at regulation *violate* that principle by making both the subjects of regulation, and government itself, bigger and more powerful.

Of these two fundamentally different types of regulation, the one that is consistent with subsidiarity, which keeps firms small, does not create much government bureaucracy. If the law holds that banks can only have five branches, it doesn't take too many bureaucrats to stop a bank from opening a sixth branch. But the kind of regulation that is contrary to subsidiarity, that seeks in the name of protecting the public to tell banks how they should run themselves, this requires an enormous bureaucracy to enforce, one that is subject to regulatory capture. Making clear this distinction between two different types of regulation—one that fosters subsidiarity, the other that harms it—should help open up economic thinking to the message of *Caritas in veritate*.

3c. Appeal to imagination

My final suggestion is the importance of appealing to the imagination. I noted above that the obstacles to the acceptance of the message of *Caritas in veritate* are rooted in the liberal worldview. It is hard to overestimate just how entrenched this view is—and how unaware people are that they are its captives. To break through this captivity, ways of articulating the message of *Caritas in veritate* have to be found which will appeal to the imagination.

Claes Ryn, in *Will, Imagination, and Reason*, argued for an increased recognition of the role of the imagination in our apprehension of reality.

He noted that the liberal worldview is more appealing to the imagination because it relieves us, apparently, of the difficult task of the hard, daily effort to develop our character, and the need to

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[21] Zingales, "Capitalism After the Crisis."

endure redemptive suffering. The liberal worldview needs to be countered with a message that is more imaginatively appealing, perhaps beginning with what is common among us all, that we are "restless to be loved and to love."[22] An important part of this is showing examples and telling stories of ways in which this restlessness can be satisfied, even within economic life, because, as Benedict writes,

> authentically human social relationships of friendship, solidarity and reciprocity can also be conducted within economic activity, and not only outside it or "after" it. (36)

This is, apparently, how the Economy of Communion phenomenon spreads: through the stories told and example given by its participants. They are the contemporary equivalents, within economic life, of the parables of the Gospel, of the stained glass windows of the cathedrals, and of the witness of the saints. ☐

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[22]Cf. Schindler, "The Anthropological Vision of *Caritatis in veritate* in Light of Economic and Cultural Life in the United States."