Albino F. Barrera O.P., *Modern Catholic Social Documents and Political Economy,*

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The tradition of Catholic social thought involves a reflection on social, political and economic issues from the perspective of the Gospels. Although most attention is given to the modern encyclicals and documents, starting with Leo XIII *Rerum Novarum* in 1891, these documents form part of the two thousand year tradition of reflection on social justice by the Church. This broader Catholic intellectual tradition has always combined faith and reason in the attempt to help Christians better follow the example of Jesus, both as individuals and as members of communities. The Enlightenment presented a challenge to a Christian perspective of social life, arguing that reason alone would lead mankind to a heaven on earth. It should be noted that many of the ideals of the Enlightenment were specifically Christian ideals, especially the goals of freedom and equality, as well as the view that individuals had natural rights.

One of the most enduring legacies of the Enlightenment project was the creation of classical and neoclassical economic theory. Both of these, each in their own way, claimed to base themselves on reason and attempted to argue that the economy was driven by natural forces, which, if left to themselves, provided for the best possible outcomes. Economic theory ultimately became the "theology" of the age of capitalism, providing the "ultimate" justifications for free markets, based on faith in the reasoning abilities of the economists, the new class of theologians.

The Enlightenment project, however, was a failure on many levels. As Chesterton often noted, the philosopher who argues most for the power of reason places considerable faith in his own abilities and observations (both of which were brought into question by David Hume who, ironically, is considered one of the patron saints of the Enlightenment). However, it was the Industrial Revolution that exposed the great lie of the Enlightenment, the idea that nature will lead individuals pursuing their own self-interests to organize a society and economy spontaneously in a manner that will both promote freedom and generate equality providing that governments and organized religion just get out of the way.

As economic theory increasingly replaced Christianity as the basis of how people looked at and evaluated the world, there has always been an uneasy tension between the two. Within the Calvinist tradition this tension was alleviated by adjusting Christian theology to fit the demands of the new economic order, creating what Max Weber called the "protestant work ethic," though Weber confused cause with effect. The Catholic tradition remained truer to its Gospel roots and attempted to understand this new economic system from a Christian perspective. It offered principles and social goals that would allow Christians to remain faithful to the life that Jesus calls us to live while still living in this world. Thus the tradition of Catholic social thought arose to try to influence the course of capitalist development and to make it more humane and Christian. To a large extend the economics profession has ignored this tradition (though there was a considerable reaction to the US Bishops' *Economic Justice for All*, almost all of it critical). One of the main barriers to successful communication between a Christian perspective and economic theory is the limited number of individuals with the required expertise to navigate the deep theoretical seas of two very different disciplines. At universities, economics and theology are never in the same department, and often are not in the same colleges, with economics frequently being placed in business schools. The greatest barrier to communication is the arrogance of the economics profession, which, besides theology, ignores the disciplines of sociology, history, psychology – in fact, every other discipline except mathematics and physics (the latter of which it uses as a model to emulate).

Albino Berrera, O.P. has performed a very useful service in bringing these two distinct and different disciplines into to one accessible volume: *Modern Catholic Social Documents and Political Economy* (2001) (hereafter referred to as MCSD). Berrera, who teaches both subjects at Providence College in Rhode Island, USA, is a noted historian of economic thought, and it is a historian's perspective that he brings to the subject of the relationship between economic theory and Catholic social thought (CST). It is, I think, the right approach to understanding both economic theory and CST, for we can only understand either if we understand them in their historical and social context. CST consists of reflections on economic and social issues from the perspective of the invariant truths of the Gospel, but no one claims that the conclusions or analyses of CST are themselves invariant truths; they are contingent on social and historical context. To give one example: the support for labour unions in CST is contingent on a specific type of economy and would make no sense if production was carried out exclusively by individual owner/producers or cooperatives. The same is true for economic theory, though many economists are ignorant of this fact. Adam Smith's *Wealth of Nations* makes very good sense for the British economy of 1776, as does Karl Marx's *Das Kapital* for the developed economies of 1867. Most error in economics stems from those who treat the theories of either of these thinkers as universal and applicable to all times and all places.

Berrera's aim is to provide a bridge of sorts. He aims to explain the development of CST in terms that a neoclassical economist would understand, to show some of the points of agreement and disagreement between CST and neoclassical economics, and to reformulate in a more systematic manner, helpful to economists, some of the main ideas of CST in the light of new developments caused by the "new economy". This is an ambitious goal and I do not think anyone could have done a better job than Albino Berrera. My main concern with this book is that in translating CST into a neoclassical economic framework, too much of its substance gets lost. It is certainly important for Catholics to learn as much about the economy as is possible and to supplement CST with useful economic theories that will allow Catholic activists to promote workable social and economic policies. As Leo XIII said in *Rerum Novarum*, "There is nothing more useful than to look at the world as it really is", adding immediately, "and at the same time to look elsewhere for a remedy to its troubles" (RN 14). In my opinion as an economist, neoclassical economic theory does not offer us much insight into the "world as it really is", and, worse still, its main contribution (its justification) is to offer a vision of how the world should be, one that is completely contrary to CST and Christian morals. The Gospels are the "elsewhere" that Leo is suggesting that we look to for help, not the theory of general equilibrium.

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No one should doubt the difficulty of addressing the relationship between economic theory and CST. Dr. Berrera's approach in Part One is to look at the tradition of CST from the perspective of neoclassical economic theory, attempting to place the main ideas in the early encyclicals in a language accessible to economists. This presents a problem from the start. The problem is that neoclassical economics as a worldview is too alien to a Christian perspective to be able to deal with these ideas as they are meant within the tradition of CST. The effort in doing this is something akin to attempting to persuade a Nazi of the benefits of cultural diversity (though maybe not that extreme!). The possibility of merging or integrating neoclassical economics with a Christian perspective is, in my opinion, a lost cause, for the Christian has to give up too much (in terms of values and convictions) and gets too little in return (in terms of insights into the workings of the actual economy). The cost to the Christian perspective is seen early in MCSD. In his discussion of the idea of the right to private property, which is fundamental to both traditions, Berrera makes the point that in CST the right to private property comes with an obligation to use the property for the common good. While this is certainly an improvement on the view of property in economics, where rights have no obligations, it is a watering down of the Catholic position. In Catholic thought the right of private property stems from the obligations and duties of the individual, specifically, to care for himself and his family. In fact, all rights come from obligations. This is a very different, and in many ways anti-modern, view for sure, but it is the Catholic view and it highlights a fundamental difference between the two worldviews. A major attempt has been made to use rights talk to bring duties into the discussion, but it always seems like they are being sneaked in through the back door while no one is looking. Often the tying of duties to rights is argued on utilitarian grounds, pointing out the self-interest we all have in having social obligations. This is not a Christian argument. Duties and obligations are the essence of Christianity. There is no greater obligation for the Christian than to love our brothers and sisters as we love ourselves, except for our obligations to God. This is our starting point, and no ground should be given on this.

Another example is worth mentioning. In an appendix, Berrera uses the neoclassical model of the labour market to attempt to present the idea of the living wage in the language of neoclassical economics, but the model is fundamentally flawed, and advocates of a living wage would never be able to argue successfully, nor achieve, a living wage if they shackle their ideas to the neoclassical labour market model. A living wage will come about once we adopt full cost pricing, which is closer to Aquinas than Marshall, recognizing that the cost of labour is a living wage. Other factors of production receive remuneration based on their ability to demand full cost pricing (or more, surplus pricing), whereas this has eluded workers. As the demand curve for labour is NOT the marginal product of labour, as neoclassical theory suggests, increasing the skill level of workers will not solve the problem of inadequate aggregate demand. Given the numerous problems with the neoclassical theory of the labour market (there is no single labour market, perfect competition never exists, wages do not adjust to clear the labour markets, the list is almost endless) this is not the best starting point for an analysis of how to achieve a living wage for all.

The last example of the straitjacket that neoclassical economics places on those interested in social justice is the so-called equity/efficiency trade-off. Berrera uses this alleged trade-off a few times to highlight the difficult moral issues that arise in public policy discussions, such as: should a country have a generous social welfare system (as in Northern Europe) and less efficiency? Or should it have flexibility (with little social protection, as in USA) and a dynamic economy? This is a false trade-off. There has been no demonstrated trade-off between economic growth rates or employment levels and the distribution of income, or efforts to redistribute income. For every example of an economy with flexibility and low unemployment (USA in late 1990s) there are many examples to the contrary (USA in the 1970s and 1980s, with its high unemployment and high flexibility, or northern Europe in the 1960s to the mid-1980s, with high equality and economic growth and employment). Accepting the myth (theory without empirical support) of the equity/efficiency trade-off is the death-knell of any hope for social justice, and it is one of the main tools used by the privileged to avoid sharing their disproportionate share of society's output with those less well off. We should remember that the neoclassical conception of efficiency is based on the idea of Pareto Optimality, which states that no change can be made if it makes at least one person worse off. This, of course, leaves out the important question of how the initial distribution was created. As force and fraud were no doubt involved in creating the initial level of inequality, Pareto Optimality merely becomes a tool for defending the status quo and strengthening the position of the rich against the poor.

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When talking about CST, Berrera correctly notes that: “Social questions need to be addressed from a sociohistorical approach and, consequently, the modern Catholic social documents do not claim an immutable, universal application of their teachings on political economy” (p. 247). The same standard, however, is not applied to neoclassical economic theory, which is completely without historical or social context. The question should not be what can CST learn from neoclassical economic theory, but what can neoclassical economists learn from CST.

Chapters 4 and 5 start the process of linking the modern CST tradition to the older Catholic intellectual tradition. This is an area where much work needs to be done. Too often CST is presented as a list of ideas or goals on a bookmark, as if that is all there is. We need to understand CST as part of a long and deep tradition, one that stands up to any other philosophical tradition. Further work is needed to fully develop both the natural law, as well as the biblical foundations, of CST. The former, I believe, will be particularly useful in understanding the relationship between CST and economic theory, as both classical and neoclassical economic theory are offshoots of the Protestant natural law tradition that started with Hugo Grotius and Samuel Pufendorf and runs directly to Adam Smith, Jeremy Bentham, John Stuart Mill, and all the Marginalists: Jevons, Walras, Menger, John Bates Clark, etc. (for this argument, see my *Economic Theory and Natural Philosophy*, 1992). Jacques Maritian argues that Grotius’ shift away from a God-centered natural law caused much of the confusion of the Enlightenment. In terms of economic theory, it lead to the development of the view that natural laws in economics were on par with physical laws of nature, and hence the belief in the invisible hand and the idea that markets automatically tend towards a general equilibrium. Of course the older natural law tradition, as exemplified in Thomas Aquinas, argues that the natural law is a moral code we are called to, based on the nature of the human person. The doctrine of free will, as well as all historical evidence, shows that humans are not subject to any physical natural laws that resemble those of classical or neoclassic economic theory when organizing their economic affairs.

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Berrera carries out a head to head comparison of CST and neoclassical economic theory in Chapters 6-8. While he notes the critique of the neoclassical contention of a positive/ normative distinction in economics, he does not follow through on this. This is unfortunate, because it is with the false positive/ normative distinction that neoclassical economists can claim that they are a value-free science and thus do not have to engage ethical arguments on the economy. It will only be only by knocking neoclassical economics off its value free scientific perch that one can then begin a true head to head comparison of the two normative analyses of modern economic life. The comparisons of neoclassical economics and CST on their understanding of the human person (philosophical anthropology) shows that the CST tradition is a better starting place for an inquiry into the economic aspects of social life. The rational economic man of neoclassical economics does not exist – in fact, could not exist if societies are to remain viable. Adam Smith knew full well that social institutions, including religious institutions, were necessary in order to set limits on self-interested actions and that any society that is dominated by “rational economic man” types would fall into chaos. Economists counter that they know that the “rational economic man” is unrealistic, but that it is merely an abstraction and is a useful tool because, as a model, it yields successful predictions. Yet, as John Maynard Keynes pointed out, for economic man to be rational he has to have perfect foresight (that is be able to see the future) and have the power, as an individual, to achieve his will, both of which are directly contrary to the facts. If man were perfectly rational in this sense, there would be no free choice; each act would be a mechanical reaction to circumstances (set of relative prices) on the basis of a given preference function. Denying the reality of free will is to deny an essential component of the

CST view of the human person. Furthermore, "rational economic man" is atomistic, that is, he acts based only on his individual preferences, not on any social influences (which would make achieving equilibrium impossible), yet the CST view of the human person emphasizes the fact that all persons are by their very nature social. CST starts off with "the world as it is" and provides direction as to what we are called to make of it, while neoclassical economics starts off with a nightmare vision of an ideal world and merely assumes that this is how the world really is, in the long run at least.

The second part of MCSD concentrates on updating CST to the realities of the "new economy," that is, the post industrial, knowledge-based economy. Throughout these chapters (9-14) Berrera notes that the "new economy" presents challenges that are different from those that the CST tradition has addressed in the past. This is certainly true to some extent, but I think one can overplay the idea that the "new economy" is a new animal all together. Globalization has been going on for the past 400 years at least and the extent of international trade has not risen very dramatically in the past two decades (however, the extent of financial mobility and speculation certainly has grown significantly). In Chapter 10 Berrera notes that the knowledge-based economy presents new challenges to the "universal access principle." After an excellent summary of the development of the principle, Berrera suggests that the knowledge-based economy will generate greater inequality, yet he does not probe deeply into why. First of all, we may note that much of the inequality of agricultural economies stems from inequality in land ownership. In industrial economies it is the inequality in the ownership of factories that is at the heart of the inequality issue. As Berrera notes, these (land and physical capital) are to an extent scarce resources, though, as Keynes and Veblen noted, the scarcity of capital is, for the most part, artificially created, at least in the case of advanced capitalist economies. However, knowledge is not a scarce resource in the sense that if one person "consumes" it, another cannot also "consume" it. This Berrera notes, but he does not make the connection that, just as with industrial capital, knowledge capital also must be made scarce artificially in order for the owners of it to receive high incomes. It is not a great leap to argue that a knowledge-based economy should be one that promotes greater levels of equality, for the sharing of knowledge can be done at a low cost – except for the fact that it creates a high cost, in terms of lost revenue, for those who currently own and control that knowledge. What is missing from Berrera's analysis, and which is also largely missing from neoclassical economics (CST too is not strong on this point), is an understanding of power and the role it plays in political economy.

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Berrera's analysis of superfluous income is excellent and raises an issue which commonly gets overlooked in CST. One consistent economic message in both the Old and the New Testaments is that wealth becomes an evil when it causes people to be distracted from their true calling, union with God. We are told that you cannot serve two masters, mammon (wealth or money) and God, and that it is easier for a camel to pass through the eye of a needle than for a rich man to enter the gates of heaven. From the Church Fathers to the present, this has been a clear theme in the social teachings of the Church. Berrera raises many important questions as to what exactly this means in a modern economy. Clement of Alexandria asked the question "Who is the rich man who will be saved" (Quis Dives Salvetur?) at the end of the second century, concluding that as long as the rich man used his wealth for the common good, he had a chance at salvation. With wealth being even more a part of modern society than it was in Clement's time the question becomes more difficult. Most economists assume that the rational person will invest his or her wealth in whatever earns the highest return, and that the invisible hand would ensure that this would be toward the common good. The perspective of the Church, however, has always been more concerned with how much luxury the rich enjoy in the face of existing poverty (Lazarus and the rich fool) rather than in how money is invested, for its concern has always been with the soul of each individual and not with the rate of economic growth. In an age of Sports Utility Vehicles (SUV's) the question of how much is enough needs to be asked. Furthermore, limiting the greed of the rich is only part of the Gospel economic message, for Jesus not only warned the rich of their responsibility, he also brought hope to the poor. In Matthew 25 we are clearly told that we will be judged based on how we treat the poor and marginalized. A Christian economic policy must start with the question: "how does this help the poor?". It must end with an evaluation of how in fact such policy has or has not helped the poor. On page 258, Berrera presents a framework of Catholic social principles which places the option for the poor on the bottom. This almost makes helping the poor seem like a trickle down goal, even though this is clearly not Berrera's intention (whom I personally know to be a man dedicated to social justice). Nevertheless, in a neoclassical economic scheme, such a concept would not even earn a mention (and the maximization of wealth, which for a Christian is the surest road to hell, would be at the top of the schema).

The last three chapters are a good start toward the process of presenting CST in a more rigorous format, one that will allow it to engage the social sciences and public policy discussions better. There should be no doubt that CST needs to engage social scientists, even neoclassical economists (the tone of this review not withstanding), but it should also have the confidence in its foundations to hold its ground and stick to its principles. Dr. Berrera is certainly right in his argument that CST needs to adjust continuously with a continuously changing economy and society, but the adjustments are always to be made in terms of means to an end and not in terms of the ends or the values used to evaluate both means and ends. Furthermore, CST should not limit the promotion of its goals of human dignity and the common good merely because economists tell them that this will lead to a lower growth rate. Equity might or might not impinge on economic growth (it depends how it is pursued) and furthermore, economic growth should not be regarded as an end in itself; it should always be seen as a means to an end. All evidence shows that after a certain point, economic growth or income levels are not correlated with individual happiness, so even on utilitarian grounds our obsession with economic growth does not make sense. Human dignity, the common good, and ultimately, union with God, are the ends CST shows to be the true source of happiness.

One should be able to see from this review that MCSD is a thought-provoking book, one to be taken seriously and one that raises many issues that Catholic scholars need to address. At its best, it challenges Catholics to engage the dominant world view (at least, the dominant view for those in power), and to engage it on their terms. While this is certainly true, we also need to engage them on our terms. In the process of this dialogue, we cannot accept any concepts and ideas that are contrary to both faith and reason.