

Economy at the Service of the Integral Human Being

I think it was Bishop Fulton Sheen who said that applause is a manifestation of the theological virtues: applause at the beginning of a talk expresses faith, applause in the middle is an expression of hope, and, all too often, applause at the end is an act of charity.

It is a difficult task to teach integral human development in the field of economics. I teach a course on economics and Catholic social thought, and so I am one of the few economists who knows the definition of integral human development. This is apparently enough to qualify for the job. Listening to an economist speak on Catholic social thought is a bit like watching a dancing elephant: It is not that he dances well, but the amazing thing is that he can do it at all.

As a teacher, I try to build ideas of Catholic social thought and integral human development into not only my specific course on the subject but into all my courses. Of course, the way in which I do this naturally depends on the course, and I will try to give practical details and suggestions for each class.

My course on Catholic social thought is a course for seniors. Many of them enter the course hoping to find some justification in CST for what political beliefs they should and what economics policies they should support. I try to redirect their expectations for the course right away.

On the first day of class, I ask the students to tell the class their name, major, and answer one of two questions: either where they hope to be in 20 years, or (an easy one) what is the meaning of life. Almost always people laugh when I give the second question, and they answer the first question with answers about owning their own business or already being independently wealthy or retired. An occasional thoughtful student will mention a happy family or hoping to have a job they enjoy.

“Isn’t it strange,” I say, “that all of you know what you want to do with your life, but none of you know the meaning of life? It’s a bit like not knowing where you want to go, but being quite sure about which road will take you there.” Before you know what a good society or good economy looks like, you have to have some view of a good life, and before you know what a good life looks like, you need to know the meaning of life.

I realize that the question is somewhat unfair: many of them have goals, dreams, and values that are deeper than the ones they initially express, but the meaning of life is an awkward question for students to answer in front of a group of strangers whom they may have just met. It is interesting and sad, however, that in such a situation – even at a Catholic school and in a course on Catholic social thought – people revert to secular values as a default.

I start with this example because integral human development is one possible view of development, and amassing wealth is one of the many alternatives. What one considers “development” depends on the end goal that one is moving toward, i.e., the meaning of life. The Catholic vision of the meaning of life is “to know, love, and serve God in this life, in order to be happy with Him in Heaven.” This is essentially communion with God. As we know, the first great commandment to love God is closely tied to the second commandment to love neighbor. That is, communion with God is tied to communion with neighbors, solidarity with others and, at some level, all of society. At first glance, this seems far afield of economics, but its orientations are view of a good life, good society, and good economy. The idea of integral human development follows this closely: it involves the development of the whole person and the whole of society toward the end of communion with God and neighbor.

The question of a good life ties in closely with our view of man, the “micro” of economics. The microeconomic behavior of man – his goals, aims, and behavior – we economists typically think about using utility functions. This approach has at least two important strengths. First, utility functions give solid predictions about human behavior that show the effects of incentives, budgets, and other constraints. These predictions can and are tested, evaluated and re-evaluated. The lessons we learn are invaluable for predicting and understanding the impacts of monetary policies, labor policies, schooling interventions, immigration policies, social insurance, poverty programs, and many more. Second, utility functions are quite *flexible* for modeling human behavior, and we can consider a wide variety of behavior.

The first strength relates to “positive” economics of prediction rather than “normative” economics of ethical evaluation. As a social science, the vast majority of what we do is positive economics, and this is our relative strength; we have some insights, but generally little expertise in the latter. Indeed, as a *system* of ethics, utility theory itself is wholly inadequate. For example, every economist acknowledges that ordinal utility theory is useless for comparing decisions across people. To paraphrase Dan Finn from our Lumen Christi conference last year: if a system of ethics can’t distinguish between Mother Teresa feeding and caring for a homeless teenage girl a married man hiring a similar girl on the other side of the street as a prostitute, how strong of a system can it really be? Luckily, we can utilize the strengths of positive economics, and even normative analysis, without adopting the philosophical and ethical shortcomings.

To do so, the positive vs. normative distinction is important to emphasize in every course. Economists understand and teach this distinction, but I’m not sure we’re always consistent. Strictly speaking our models predict what people do, the choices they make, not whether those choices ultimately make them happier. There is of course a goal-oriented rationality to economic behavior and utility functions, but the distinction between our choices and our welfare is real. Generally, we humans pursue our own good, but not *every* action we take makes us better off.

Just a few days ago, we celebrated Halloween in the United States, a holiday where children dress in costumes and go door-to-door collecting candy. The economic decision

my children like to make when they get home is eating all of their candy in one sitting. If we allowed this it would leave them with a sick stomach that night, and no candy the next morning: clearly not better off.

It is not just the domain of children, however. An alcoholic may choose to consume another drink, but this does not make him better off. Indeed, he may not even want the extra drink: he may be desperately trying to resist it! People make poor decisions. This small point is a point that can be made in any class, and even in a class of non-Catholics.

Some of these poor decisions stem from issues like informational problems, uncertainty, self-control, and temptation, which economists do model, and these theories leads to interesting insights. But I am getting at a larger issue: A true understanding of the human person recognizes *human sin* as an important reality. People sin by making mistakes and falling to temptation, but the truest sins consist of people simply pursue the wrong goals: choosing evil over good or lesser goods over goods. I emphasize this in my Catholic social thought course.

Another way we can integrate this in our classes more generally is when we discuss efficiency, which we do in almost any class. Economists' concept of efficiency stems from the Italian economists Wilfred Pareto. Pareto efficiency is often described as the condition that "no one can be made better off without making someone worse off", but this is loose language. A better phrasing is this (listen closely): "no one can be given an alternative they would choose, without someone else having to choose an alternative that they would *not* have chosen over their original choice." It is an awkward phrase, and I don't use it all the time, but once they've understood it, even the awkwardness of the phrase serves to remind the students of the distinction between choices and well-being.

Let me return to the second strength: flexibility. The standard utility function is useful in its simplicity, but obviously quite narrow. At a basic level, we show how people choose between buying one good or buying another. Does this mean that material goods are the only thing that matters in life? Are people purely individualists, caring only about themselves? Such accusations are often leveled against economics. There may be some merit to them, but I think the accusations are largely unfounded.

Economists study a wide range of behavior, including altruism, social interactions, fads, habit formation, temptation, self-control problems, bounded rationality, behavioral biases, and many others. With varying success, researchers model people as valuing and choosing, not only material goods but also education, health, marriage, children, and the preferences of their children. There are even a few papers about how religion and the afterlife affect economic behavior! Much of this wider view of human behavior in economics stemmed from the work of Nobel Prize winner Gary Becker, who passed away this past May.

What is true is that very little of this work makes its way into undergraduate classes. This is a shame. It's important to try to integrate some of this into our courses because it breaks the connection between economic life and the "life is consuming" stereotype.

Ultimately, material goods, even necessities like food, clothing, and shelter, are not ends but means. They are means of keeping us sustaining life in order that we may know, love, and serve God. They are means of leading to, or potentially detracting from, not only life but the good life: communion with God and other people.

I try my best to incorporate economic research that gives a somewhat broader view of man, so that one can emphasize integral development of the whole man. Let me give two examples.

One subject that students in my course on economics and Catholic social thought really enjoy is behavioral economics. I have them read parts of the book “Nudge” by Thaler and Sunstein, which gives a colorful overview of how psychological biases, framing of decisions, and defaults affect everyday decisions, and it applies them to economic decisions like saving for retirement. It brings up the importance of habit in our decision-making. The idea that people make psychological mistakes also opens those with subjective approaches to morality up to the idea that people also make ethical mistakes, and that some forms of paternalism can be good things.

Another subject is the research on non-cognitive skills and early childhood development, and here I mean the recent work of another Nobel laureate, my advisor Jim Heckman. Cognitive skills involve our traditional understanding of skills: academic ability, professional training, etc. Non-cognitive skills are essentially “natural virtues” like sociability, teamwork, conscientiousness, persistence, and impulse control. These skills are as important as cognitive skills. The lack of such virtues is highly predictive of lots of bad outcomes: poverty, dropping out of school, drug use, teen pregnancy, going to jail, happiness, etc. These skills are formed at very young ages, and they emphasize the importance of the family and parenting. What is encouraging is that experiments on early childhood interventions have proven to be effective in helping young children acquire these virtues. This gives us hope that combination of interventions involving government, civil society, and families might address these problems.

The research affirms integral human development because it shows the strength of Catholic approach to development of the full man, which emphasizes virtue, character, and social relationship, especially family. It also shows the important role for economics, and why it is important to understand the root causes of poverty, as Pope Francis emphasized in *Evangelii Gaudium*:

“Welfare projects, which meet certain urgent needs, should be considered merely temporary responses. As long as the problems of the poor are not radically resolved by rejecting the absolute autonomy of markets and financial speculation and by attacking the structural causes of inequality, no solution will be found for the world’s problems or, for that matter, to any problems. Inequality is the root of social ills.” (EG, 202)

I will address markets and finance later, but Heckman’s research highlights a different structural cause of poverty: a lack of *social* development of families and *broader integral human* development at a young age stifles personal *economic* development. In this case, it is an inequality of family background rather than merely material goods that is the root

of many social ills.

This realities of these challenges or deficits that the poor face matter for poverty policy, and I'll give an example. In the United States, we have two very different social problems: high rates of obesity on the one hand and people going to sleep hungry on the other. What is most striking is that both obesity and hunger are common among the exact same populations, namely the poor! In the coming newsletter of our society CREDO, an American bishop has contributed a letter against cutbacks in a poverty program called food stamps. Most people assume that food stamps help to stamp out hunger.

Careful economic research has shown that they don't affect aggregate food consumption, however, or even the chances that people go to sleep hungry. How can this be? Well, if a poor family spends \$200/month on food, then giving the family \$100 worth of food stamps is the same as giving the family \$100 of cash. If they want, they can simply combine the food stamps with \$100 to spend the same \$200/month on food, then use the other \$100 to buy whatever they want, and that is exactly what happens.

Careful economic research tracking the daily food consumption of food stamp recipients also shows how hunger and obesity can arise simultaneously. The poor receive food stamps monthly, and they have difficulty managing their budgets. Many consume a great deal of food when they first get their stamps, but by the end of the month these people have run out. On average, they consume too much food leading to obesity, but they still have days when they go hungry. This is not particularly healthy, but they lack the self-discipline to correct the problem. Sound public policy might address this reality of the poor not by increasing the amount given but by disbursing the payments on a weekly basis.

I have now started touching on policy issues, so let me move on to questions about the good society. What constitutes a "good society"? The best macroeconomic analysis is built on micro foundations. Similarly, a Catholic understanding of a good society is built on our Catholic understanding of a good life.

Indeed, the Second Vatican Council underscores this connection in describing the common good as, "the sum of those conditions of the social life whereby men, families and associations more adequately and readily may attain their own perfection." (GS, 74) This perfection is the good life of communion with God and others.

How does an economist operationalize this understanding of a good society in the class? One way is to emphasize the multifaceted, integral aspect of this good society, these "many conditions of social life".

The common metrics we focus on are quite useful, but they alone don't encompass the good society. Again, efficiency is a common metric. It is nice criterion that, subject to my earlier points, often indicates if there is waste in the system: sometimes there are indeed ways to make some people better off without hurting others. But an economy where everyone was dirt poor might be efficient, so it is clearly incomplete on its own. I

try to point this out to my students.

Another common metric we use is real GDP per capita, or average income, and in macrodevelopment I study this a lot. Still, I think it is important to give a balanced assessment of it. Of course, it does not address concerns for the whole of society like poverty and inequality, which I will address shortly. But even for the potentially rich, there is a great deal that it leaves out. There are the well-known accounting issues like the fact that GDP doesn't include the value of nonmarket production, which is an area where the family plays an especially important role, for example in the rearing of children. It also omits much of human capital investment and environmental disinvestment, and of course it omits leisure entirely. The Sabbath is bad for GDP! Of course, we should also explain why we do use it: it is available, simple, it weights different output using prices, which definitely don't always reflect the value of output to society, but are usually a good indication. It's also correlated (though not perfectly correlated) with a lot of other metrics that help approximate a good society: education, health, political rights and freedoms, public goods, and even happiness. I like to discuss this in my development classes because it reminds them of all these many different dimensions, and these are dimensions that economists do indeed study.

The deepest aspects of a good society, however, are not things economists typically measure. Here I have in mind the virtues. We have made some progress on topics like trust, but very little on things like faith, hope, and justice. I don't want to give justice short change because it is a necessary part of integral human development. There are elements of justice, such as the universal destination of the earth's goods that are quite different from things like property rights, contract enforcement, and rule of law, which we might cover in a course on economic growth. But my time is limited, and so I want to focus on the greatest virtue of all charity. I think economists spend even less time on charity.

Indeed, when we consider charity, we often think of it as a means rather than an end, or an outcome in itself. Just last week I was at a conference, where it was questioned whether personal charity is an effective tool for poverty alleviation, there is work on fundraising and how to induce charitable giving, and plenty of research discusses how altruism impacts savings decisions and growth. But this doesn't get to the heart of charity as love. Here is something I emphasize in my Catholic social thought course: Charity is an end in itself; it is the heart of integral human development because it is charity that builds and reflects our deepest communion with God and our fellow man. Since God himself is love, charity can rightly be called our goal.

A wonderful short story called the Gift of the Magi, by the American author, O. Henry, illustrates this idea. I don't know whether the story made it down to Chile, but it is quite well known in the United States. It is the story of a young couple, extremely poor but deeply in love. The wife's dearest possession is her beautiful long hair, and the man's only possession of value is a silver watch that has been handed down through his family for generations. It is Christmas Eve, and the woman has nothing to give her husband, and no money to buy a gift. Nonetheless she goes out shopping, she sees a silver chain that

would matches his watch, and in an act of love, she has her beautiful hair cut and sold in order to buy it. She then waits for her husband to come home, nervous that he will no longer find her beautiful. When he finally arrives, he sees her with her hair cut, and she gives him the chain. He then gives her his own gift, golden combs which he has purchased by pawning his beloved watch.

Now this is my point. The short-sighted economist might look at this irony, and see only a horrible allocation of resources. After all, even a central planner could probably have done better. Even non-economists realize this, of course. But the person who can only see this as the worst of all possible Nash equilibria, has simply missed the point. He or she has missed the point of both the story and of life. The Catholic understands that the watch and hair are not at all what is important. Their value and purpose were merely as means to an end, the end of the two joining together in love. They now reflect the Trinitarian love that St. John of the Cross captures so eloquently, “Como amado en el amante,^[SEP] uno en otro residía,^[SEP] y aquese amor que los une,^[SEP] en lo mismo convenía.” (Romances)

An important aspect of love is concern for the poor. Pope Francis has made the “preferential option for the poor” a pillar of his papacy. It stems directly from a desire to know, love, and serve Christ by knowing, loving, and serving his little ones with whom he identified. “Whatever you did to the least of my brethren you did to me.”

Poverty is an area that is easy to integrate in economics. We study it with great rigor on both microeconomic and macroeconomic sides, and we have as much to teach about it as any other field. Several economists here at Pontificia Universidad Católica de Chile are members of JPAL, the Jameel Poverty Action Lab, which studies the impacts of various programs on the poor in developing countries. At Notre Dame, we have a center called LEO, the Labor for Economic Opportunity, which has partnered with Catholic Charities to evaluate poverty alleviation programs in the U.S. In both cases, the research helps us to understand poverty and improve poverty reduction efforts. On the macro side, the approach of economics is not to approach markets and finance from an ideological stance but to frankly assess them, just as we do government. Many times, we highlight market failures, for example in the provision of public goods or environmental degradation. In many other cases, however, we find that the poor are hurt not by markets but by the breakdown of markets, which can arise from lack of information, poorly defined property rights, geographical remoteness that prohibit trade, corruption, and many other forces. Similarly, it is often a *lack* of finance and financial services that stifles the poor.

These findings are critical to integral human development in the poorest societies of the world. We need to teach these findings to our students, and help the insights of economists to permeate into other circles of Catholic social thought, and their views on integral human development.

In integral human development’s concern for the development of all peoples, clearly economic poverty and inequality are linked. Economists carefully distinguish between economic poverty and inequality. Poverty is compared to an external standard (i.e.,

income, wealth, or resources below some absolute threshold), while inequality is relative to other people (i.e., disparity in income, wealth or resources across people). In contrast, Catholic social thinkers often conflate the two, or use them interchangeably. Some of this comes from sloppiness, but some of it stems from a different view of poverty and inequality.

Economics largely deal with temporal goods, and for that work our definitions are appropriate. In development economics, for example, we emphasize and study many aspects of extreme poverty, such as poor health, poor sanitation, high infant mortality, high rates of orphans, low levels of technology, few rights for women, child labor, financial vulnerabilities, migrant labor, etc. These broader aspects help capture the fuller picture of development (or a lack thereof), but they are overwhelmingly concerned with material living standards, the body rather than the soul.

Economists recognize rising inequality as an issue, and we've been measuring it and examining its causes. We've learned a fair amount about what has been causing rising inequality in the U.S., for example, and how it interacts with poverty. More recently, the World Bank has begun tracking inequality data for a host of countries. In recent years, I've been asked to give talks on inclusive growth to both the IMF and World Bank.

Normatively, however, while poverty has its own importance, inequality is usually considered problematic only in an instrumental role. Note the issue of means and ends arising again. Economists concerned with inequality will consider several mechanisms through which inequality might be harmful: by increasing poverty directly if the poor become poorer, for example, or by leading to poverty traps either for individuals or even entire economies, by leading to crony politics that disrupt competition or large scale redistribution that distorts incentives to work and invest, or maybe by leading to civil conflict that can bring entire economies crashing down. All of these we study and we also try investigate the causes of inequality. The formality we add is beneficial because it leads to theories and measurement that we might test, but in the end inequality is problematic because it affects absolute material living standards.

The approach of Catholic social thought to inequality is altogether different. On the one hand, there is an understanding that some inequality is to be expected and even just. After all, God created a diversity of people with a diversity of roles and needs. Moreover, some inequality is the just consequence of a lack of virtue: "He who refuses to work, neither should that one eat," says St Paul to Thessalonians.

But in line with the idea of integral human development, Catholic social thought also emphasizes a spiritual aspect of both poverty and inequality. Consider words like "marginalized" and "alienation". It is a real poverty, but it is a poverty that is connected with human and social relationships, and thus inherently about disparity and inherently relative to other people. It is a poverty of communion, respect of human dignity, and solidarity, and in this spiritual sense poverty and inequality are tightly bound.

Perhaps it is easier to see if one considers a family. If one child gets everything, while

another gets nothing. It is difficult for love to bond the siblings, or the parents to the siblings. In the same way at a societal level, excessive inequality is thus problem, not instrumentally, but directly because it is both a manifestation of and a cause of a lack of charity or communion between peoples, what Catholics call “solidarity”. Taken to an extreme the entire concept of a common society disappears.

I may have already talked too long, and I have not yet addressed the final question given to me. Is there a way to promote an economic model of development that considers the whole person? I think there are ways to teach economics that considers the whole person. However, neither CST nor economics as a social science has a particular model in the sense of an “-ism”, or ultimate economic solution to offer the world, and that is a strength of both fields.

Catholic social doctrine offers lots of principles, but these principles need to always be applied and reapplied to changing social situation. Social and economic problems are diverse, and the specifics and conditions change from place to place and over time. Christianity offers us truth that is universal and not contingent on time or place, but the implementation of ethical truths and practical life of faith – the living Tradition of the Church – is faithful yet fluid. What is appropriate in Chile may not be appropriate in Poland. What was appropriate in the time of Pope Leo may not be appropriate in this era of Pope Francis. CST is an important part of this living Tradition.

Economics, when practiced as a social science rather than an ideology, offers us methods and techniques. Using these methods, we develop predictive theories of human behavior and aggregate economies. We develop techniques to test these theories and better measure the realities of the economic world that are most relevant to a good society, i.e., integral human development. Together, this leads to practical insights into how economies function and sound economic policy. This is admittedly somewhat narrower than discussing broad economic paradigms and systems, but I am a firm believer that our narrow economics is of great value. I have tried to emphasize that the social scientific approach cannot work alone, however. It works best when our broader vision of a good society and good life are guided by our Catholic faith.