

Charity and the Technical Economist: A Response to Paul Knitter

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The Need for Dialogue

No one field of knowledge can be our sole guiding light when it comes to the economy, society, and political decisions. These are important questions that involve all of society, and they require a variety of expertise and input.

Indeed, religion plays a foundational role in helping us understand who we are. Without religion we cannot answer two questions that echo in all ages: what is the good life, and what is the good society? Authentic religion helps answer these questions by revealing man to himself: our nature, our purpose, and our ultimate destination. If we are to have a system of principles and values that ultimately enable what economists call normative analysis, it should stem from a fundamental anthropology.

As a theist, a Catholic, I look to my religion for this foundation. Recent Popes (Paul VI, John Paul II, and Benedict XVI) have emphasized an understanding of development that addresses these two great questions, at least in part. True development, they say, is not merely technical progress or growth in average income, nor even economic development more broadly, but rather “integral” development. By integral, they answer that the good life involves the whole person (body, mind, and soul), and the good society involves the whole of society (all people and all aspects of society and culture.) In Christianity, it is Christ himself, a visible example of the good life, that introduces man to himself, and it is the Trinity that gives us an example of the good society.

But religion cannot answer moral questions alone, especially if our ethic has any teleological element. When the morality of decisions depends on their effects, we need to have some sense of what the effects of our decisions might be in order to properly evaluate those decisions. In today’s economy, which has become increasingly complex, these effects are not obvious. Indeed, they are quite difficult to measure even after the fact, let alone predict.

I’m no expert in interreligious dialogue, but I imagine that there are two essentials that are necessary for true dialogue.

The first, I presume, is that it is important for a person to have a clear understanding of who they are and whom they represent. In this case, I feel that I am well-qualified, as I am unabashedly Catholic, and unabashedly an economist. I study growth, development and international economics. I am a mainstream research economist. I studied under two Nobel laureate economists, one macroeconomist and one microeconomist, at the University of Chicago, have consulted for multiple Federal Reserve Banks and the World Bank, and have conducted research, including field research, in Asia, Africa, and Latin America. I am also a cradle Catholic whose

main impetus for studying economics was a concern for the poor. I teach a course on economics and Catholic social thought, and I organize an annual interdisciplinary conference on the topic.

I imagine the second essential for true dialogue is some basic knowledge of the other. Some effort at learning the basics of the other field and having a mutual respect, knowledge, and understanding of the other person is essential. This is the difference between true dialogue and polemics. Here, I don't claim to be particularly qualified. While I do know my own faith, I am no theologian, and I am admittedly ignorant regarding many aspects of religious thought.

Paul Knitter falls well short on this front as well. His essay conveys very little understanding of economics and economic language. Indeed, it confuses many ideas and terms. For example, he uses "Free Market Economy," which describes an economic system, as a blanket term covering a list of different phrases with much more precise meanings, such as "Casino Capitalism," a term used to describe financial instability, and "general equilibrium theory," a methodology which tries to model the economy as a whole, including the feedback between different sectors and markets within that whole.

More importantly, Knitter's essay shows little understanding of what economists actually do or what we're about. This is where I hope to add some insight.

Economics is *not* a Religion

Knitter's second argument is that modern economics is a religion. I use the term "modern economics", whereas he uses "Free Market Economy" because I find it a more appropriate moniker for what he describes as "the understanding of the market that has been taught in American universities and followed in the global market since the late 70s."

I strongly disagree with the assertion, advanced not only by Knitter but also by others in this volume, that modern economics is a religion. Indeed, I think it reflects a prejudice of discipline that can harm true dialogue. Knitter references the mystical qualities of Adam Smith's "invisible hand" analogy. Smith mentioned the analogy in his *Inquiry into the Nature and Causes of the Wealth of Nations*, a fundamental contribution in the history of economic ideas written in 1776, but the idea was first and more fully developed in *The Theory of Moral Sentiments* (1759). I would venture that most economists and theologians have heard of this analogy.

But economists today don't spend our time reading the *Wealth of Nations*. Most economists, especially those trained since 1970, the period Professor Knitter singles out, have never read it. It is probably not surprising to note that the field of economics has changed a great deal over the past 235 years.

I often think that critics in the humanities focus on the work of Adam Smith because it is one of the few influential economic works that is broadly accessible. They also focus on the popular discourse of economics for the same reason. Unfortunately, even Nobel laureate pundits such as

Milton Friedman, Paul Krugman, or Joseph Stiglitz, despite long resumes of influential past academic research, are not representative of the field. They are the brash few, endowed with a sort of uber-confidence in their own knowledge of the truth, who have left the fields of humble research in search of truth for the perilous oceans of political advocacy. Such brazen advocacy may or may not be warranted; my point is that it is certainly not representative.

So let us put some caricatures to rest. Most economists are not ideologues. We don't believe markets cure every evil, nor do we sit in our basement trying to derive systems to make the rich richer and the poor poorer. We are not grand social philosophers. We don't spend our time inventing new economic "systems."

Our focus is on the technical aspects of the economy, rather than the philosophical aspects. We are much more like technicians, which is an assessment of both our personalities (technically-oriented) and the nature of our work. Our field is highly mathematical. It needs to be mathematical, in order to answer technical questions. This does make interdisciplinary discourse difficult, and perhaps economists should spend more time translating our work for the general public. I do think a deeper dialogue is important, so I would also encourage people interested in fostering dialogue to invest the time into learning both theology and economics on a deeper level.

Economics does have its philosophical presuppositions, as does any discipline, but to call it a religion is to miss the essence of the profession. Again, we are technicians, and, like auto technicians, we spend most of our time under the hood, trying to figure out what makes things work, and what seems to be broken. We collect and analyze data, write down and test models, and measure and predict the impacts of policies.¹

Such work is slow and tedious, and it requires a great deal of care and effort. For example, one project of mine evaluated the impacts of a microfinance program in Thailand. My co-author and I used data that we collected from nearly 1000 households over 7 years in rural villages in Northern and Central Thailand.

The research involved several steps. In Thailand, we made trips to interview real people, but we also employed a survey staff of nearly 70 young Thai adults. Back home, we developed a theory, wrote computer programs, and used these programs to simulate the theoretical behavior of households. Then we analyzed the actual impacts suggested by the data, looking both at the aggregate impacts and the distribution of impacts across households. We compared the results of our theory to the actual data, and finally used the theory to try and predict the possible impacts of some alternative policies.

¹ Clear use of language is important for dialogue. Economists and theologians use the word "model" to mean very different things. To my understanding, theologians use "models" to describe either a type of economic systems or alternative visions of the economy. In economic use, the word "model" refers to *a system of mathematical equations used to predict some aspect of economic behavior*.

This example is not extraordinary. In my career, the average time from the beginning of a research paper to its publication is about five years.

Why do economists focus primarily on the technical side of economic problems? One reason is that technical questions are precisely the expertise of economists, or what economists call our “comparative advantage” and it is the comparative disadvantage of religion. I know that the Catholic Church does claim to be an “expert on man”, if by this we mean that our faith provides answers to the principle characteristics of a good life and a good society. As a Church, we understand that each field has its sphere, and in principle the Church respects the role of the social sciences. What a crazy world it would be if we asked economists to spell out our moral principles, and asked theologians for policy advice on how to implement them.

And yet we must acknowledge that such an idealized division becomes blurred from both sides. Economists have values, and theologians have opinions on how economic policies might play out. To my ears, hearing a theologian call for or propose new economic “models,” however, is comparable to hearing an economist commenting on the Israeli-Palestinian conflict by proclaiming a vague idea that what we really need is a new Judeo-Islam hybrid religion. In each case, the ideas involved would be naïve and offensive to genuine dialogue. To paint economics as a religion is as absurd as saying that theologians are really practicing economics, but the latter is closer to the truth.

A technical approach has great merit, especially in the frequent cases when the technical issues are more puzzling than the ethical goals. For example, we can talk and write about the right to a living wage and the right to work, but the virtues of these things are relatively clear. There isn’t an economist or a politician in the world who would ever propose low wages and high unemployment as goals.

How to achieve these goals is the real question. Much of the difference in opinion among people doesn’t stem from a difference in fundamental values, but rather from different predictions about the effects of different policies. In either case, difficult decisions require understanding what is at stake. And we can’t answer questions about goals without understanding the technical aspects of achieving those goals. The road to economic hell is paved with good intentions.

A World of Crises

Knitter raises three concerns in particular: the economic crisis, the environmental crisis, and global poverty and disparity. I should mention that, much like the living wage and right to work, simply stating these concerns requires little research or new insight. They are well-known. Again, I studied at the University of Chicago, and I don’t know a single person who is pro-financial crisis, pro-global warming, and pro-poverty.

Putting the Economic Crisis into Perspective

Consider the recent economic crisis in relation to other large crises. In Figure 1, I have plotted average income per capita for the recent recession (United States) through the middle of 2010, as well as for the two biggest financial crises of the last century, the Great Depression (United States), and the East Asian Crisis of the late 1990s (Thailand). The vertical dashed line indicates the beginning of the crisis for each episode.

Several things are immediately apparent.

- First, growth leading up to crises differs across the three countries, with recent growth in the U.S., and especially Thailand, far outpacing the relatively flat and volatile growth of the “roaring” 1920s U.S.
- Second, the drop in income in the Thai crisis and in the Great Depression was quite similar during the first two years. After two years, Thailand returned to its high growth projector, while the Great Depression sank deeper into a prolonged recession.
- Third, in comparison, the recent recession is negligible, hardly visible relative to the other two recessions.

I don't want to minimize the crisis in any way, or ignore the suffering of people who are out of work or who have lost their retirement savings, but I want to keep things in perspective.

The current crisis is nothing compared to the other episodes, especially in human terms. There are several reasons. Of course, the biggest difference is simply the level of income. While I have scaled the three lines to be equal at the start of the recession, real incomes in the U.S. before the recession of 2008 were roughly five times as high as they were in 1929 or in 1997 Thailand. In the earlier episodes, a severe drop in income made meeting basic subsistent needs difficult for large segments of the populations. In 2008, even hypothetically, if income had dropped as severely as it did in the Great Depression (one-third), we would be back at 1993 incomes. I'm not old enough to remember 1932, but I was a student in 1993. Poor as I was, it didn't feel like the Great Depression. Of course, average income doesn't tell the whole story; it doesn't capture the unemployment and lost wealth of this recession. Unemployment has risen much more than average income has fallen. Still, the ten percent unemployment we have pales in comparison to the 25-30 percent unemployment of the earlier episodes. Moreover, the U.S. of 1929 and Thailand in 1997 had neither social security nor unemployment insurance; losing one's life savings or job hurt because, except for friends, family and private charity, there was nothing to catch the fall.

Of course, problems do exist in financial markets—I don't think anyone denies that—though there are differences in opinion on how to shore things up. But we can't focus on the crisis alone and ignore the existence of tremendous growth. This crisis is not a reason to start rethinking the

foundations of our economy. Indeed, one might even look across the three episodes in Figure 1 and consider the possibility that economists may have learned something over the past 80 years.

Economists' Approach to the Environment

Let me address the environment as well. Pollution is a clear example of the technical rather than ideological approach of economics.

Pollution has long been a clear example of laissez-faire market failure, even from an efficiency standpoint. Clearly, some level of pollution must be allowable, since we wouldn't be able to function or live without producing some pollution. From an economic efficiency standpoint, the primary problem is that people tend to pollute excessively because the private costs of polluting are much lower than the true social costs.

Nearly every economist would agree about this market failure. Most economists would agree that government intervention can improve the situation. Some economic answers include: (1) regulating polluters through direct quotas, or (2) taxing polluters to increase the private cost of pollution so that it better reflects the social costs. Both answers presume an important role for government.

But just as the limits to markets are real, so are the limits of governments. It is difficult to know what the optimal level of pollution is, and this optimal level of pollution surely varies by the circumstances. A neonatal care unit should have less pollution than a coal mine; a power plant in a less populated area should be allowed to produce more pollution than a downtown restaurant. The potential variety of circumstances is nearly infinite.

Given these limitations, economists have suggested assigning legal property rights and using markets in conjunction with regulations. For example, to prevent overfishing of ponds, local governments typically sell licenses to catch a maximum number of fish. That is, the license owner has the legal right to fish. Alternatively, the government might allow the pond to be privately owned, in which case the owner protects against overfishing. In the case of pollution, the cap-and-trade policies are an example. Power plants would have the rights to produce specified amounts of CO₂. Economists suggest combining these property rights with markets, where plants might come together to buy or sell their legal right to pollute. Since polluters have to buy the rights to pollute, polluters face the costs of their decisions, but markets put decisions back into hands of people with the best information. Understanding the facts is also quite important to economists. One fact is that pollution tends to fall as countries grow beyond a certain level of income. Emissions for nearly every major contaminant have fallen over the past 30 years not only in the U.S. and other advanced economies, but also in China, the emerging industrial giant. The reduction in emissions has been accomplished through three interrelated sources: new technologies, government intervention, and an increased desire for clean air, which accompanies higher incomes. Poor people typically have low willingness to pay for cleaner air

and water.² Of course, CO₂ is the important exception—emissions have risen rather than fallen. A second fact is that the U.S. is no longer the world's biggest producer of CO₂. This underscores the limitations of national governments, since the U.S. government limited power to control the world's biggest polluter without international negotiation.

In my opinion, it is clear that any action must be international, and the bulk of the burden to reduce pollution must fall on the advanced economies. But the point is that this cannot be accomplished without understanding the technical issues, economic and scientific, involved.

Global Poverty and Disparity

Development economists know a great deal about poverty; that is our business. The level of poverty in the world is hard to imagine for most Americans. Most people in the world live on less than \$3/day or \$1000/year. I think Knitter did a good job emphasizing the other issues involved: low life expectancy, high infant mortality, a lack of education, etc.

How did people get this poor? We know a fair amount about this as well, and the answer is that before the industrial revolution, outside of a few elite in each society, all of humanity was poor. Today the poor areas of the world are overwhelmingly simply those that have remained poor. Their incomes simply haven't grown.

Knitter's figures show that inequality within societies lowers many measures of aggregate social well-being. Although the true picture is much more nuanced, the statement is generally accurate.³ But even here, average income is very important: in rich countries, the health, education and income levels of even the poor segments of society far exceed average levels in the poorest countries. Surviving on a dollar a day means eating a bowl of rice and some vegetables, wearing the same clothes everyday, no shoes, no health care, no education, drinking water from a local stream, and living in some make-shift shanty quarters, but this is how the "bottom billion" that Knitter references typically live. Almost no one in the U.S. lives on a dollar a day.. In the rich countries, high inequality is more likely to cause social exclusion than extreme material deprivation.

As dire a problem as poverty remains, poverty rates are thankfully declining, due in large part to the recent growth of China and India. Growth is absolutely critical for the poor. Indeed, if we look at changes in global poverty and inequality, these are driven by some countries growing and others not, or some regions within countries growing and others not.

² ² The water in poor countries is typically already contaminated from natural sources, e.g., bacteria.

³ There are entire literatures studying and debating each of these patterns. I am inclined to believe Knitter's interpretation, but it is very difficult to establish causal relationships. I point out one example of a nuance. Life expectancy in the United States is lower than other advanced countries, but this has little to do with our physical health or health care. Americans have an odd passion for guns and automobiles, and both result in a great deal of deaths at young ages. After correctly adjusting for this disparity, the United States has the highest life expectancy in the world.

Economists have learned some things about growth over the failures and successes of the past fifty years. We've witnessed disastrous economies and miraculous economies. Most of the disastrous economies fall under two categories: economies that are centrally planned (e.g., North Korea, China under Mao), or economies suffering from Civil War or revolutionary unrest (e.g., sub-Saharan Africa and Latin America).

At the same time, we've seen high growth economies that have transformed whole countries. Examples include South Korea, Taiwan, Thailand, and post-Mao China. More people have been lifted out of poverty over the past thirty years than at any time in history. In China alone, home to one in five people, poverty rates fell from 86% to 16% from 1981-2005. These miracles have also had common elements—namely, that they are market economies, and that they are globally integrated, particularly in trade.

There are stark, even grave, examples showing that markets and openness matter. I want to emphasize these because there have been religious sub-groups—liberation theologians in Latin America, for example—who have argued against global integration and who have even pushed for centralized economies, devoid of private property. Using Marxist social analyses, these theologians have been confident that they knew what changes were needed. The only question was igniting the fire of change.

But as I mentioned before, the road to economic hell can sometimes be paved with good intentions. Consider the fateful divergent paths of North and South Korea. At the time of the ceasefire, both were poor, but North Korea was the more economically advanced. Today, it is one of the poorest countries in the world, where 2-3 million people died of famine in the 1990s. In contrast, South Korea is now a prosperous country with incomes 15 times higher than its northern neighbor. Consider the example of China, where under the central planning of Mao, incomes failed to even double over the 28 years of 1950-1978, and an estimated 25-60 million people died of famine during the Great Leap Forward of 1958-62. Contrast these realities with the quadrupling of incomes in the 28 years of economic decentralization after Mao.

There is no way to sugarcoat this. These disasters have been man-made. They put our current economic crisis into perspective, and they clearly underscore the need for dialogue.

The Limits to Growth

Does growth solve everything? Of course not. I have already mentioned the important problem with carbon emissions. The lack of political freedom in China is a second example. Figure 2 underscores another concern.

Over the past 40 years, incomes in the United States have grown, but at the same time, we see a troubling decline in religiosity. The measures shown are the fraction of people who affiliate with any religion (Catholic, protestant, Buddhist, Hindu, Muslim, Jew, and others) and also religious giving, and both show a steep decline. Some of this may be the tendency to claim to be

“spiritual”, but not “religious”, but other measures of religious values in the Socioeconomic Survey show a decline as well. Indeed, the most striking trend is the 2-fold increase over the 1990s in those with no religion at all. Is this the type of integral development that the Pope had in mind, when he talked about development of the “whole person”?

This “poverty of the soul” is, I believe, an equally grave concern. There is certainly much debate and a large literature in the social sciences on the decline of religion, some of which I have read, and much of which I have not. These trends weren’t always so. As late as the 1950s, the data show a large upswing in religiosity and religious donations. Like the other crises, combating the decline in religiosity is a real challenge for the current generations: theologians, economists, religions, and societies in general.

I would make two empirical points. First, the decline in religiosity mirrors the decline in the family. Over the past thirty years, the size of families has decreased. Divorce rates have spiked. Roughly one of four pregnancies ends in abortion. Second, the decline in religiosity has also coincided with a boom in college education, and indeed, across individuals, a lack of religion is more strongly correlated with education than with income.

I conjecture that these trends have some bearing on the decline in religion. In Catholic thought, the family is both the fundamental cell of society and the “domestic church”. It is the family that most closely mimics the Christian model of the good society, the Trinity. It is in the example of parents, where children best learn their faith, and it is in families, where we learn fundamental social principles like solidarity, subsidiarity, concern for others. The question is whether people of faith can live up to this model. The relationship with education also should be a challenge to those of us people of faith in higher education. The experiences in current and former Communist countries highlight the importance of the history of ideas when it comes to religion. Again, the onus is on us educators to provide an intelligent, well-articulated presentation of religion as a compelling alternative to atheism, materialism, and skepticism.

Conclusion

For all the growth we’ve experienced, we are left with the key questions: What is the good life? What is the good society? Are we gaining the world but losing our souls?

Is the good life a life of gluttony? We have lost the virtues of moderation, self-control, prudence, and we pay the price. We suffer from gluttony in many ways, obesity, shop-aholism, sex addiction, environmental degradation, and even the gluttony of our own autonomy, which leads to abortion, divorce, never committing to marriage. We are even gluttons when we are not gluttons. We all diet, but no one fasts. One is done for vanity, the other for humility. Does more always lead to true happiness?

Is the good society a society lacking charity, justice, and solidarity? Again, we, as individuals and as a society, are certainly guilty. I do research in developing countries, where I know one in

ten infants die. Yet I live in relative comfort. I give my own children medicine, but there are children elsewhere who go without. It's not that we do nothing, but if I ask the old question—What would Jesus do? I look at the Cross, and the certain answer is “More.” But charity, an essential part of the good life and the good society, doesn't negate technical questions.