

What Would a Moral Economy Look Like? Values and Metrics

I would say thank you to the organizers for inviting me, but that would be a bit self-serving, so instead I will thank Vittorio and Luigi for their wonderful talks. I will try to complement their ideas by talking about the Catholic vision of the good society and some thoughts on measurement.

“When I was a child, I talked like a child, I thought like a child, I reasoned like a child, but when I became a man I put aside childish things.”

That’s not me, of course, but St. Paul in probably his most famous passage in the bible, which we hear at weddings all the time: his impassioned speech on the higher gifts, especially love.

My 8-year old son Andy is a child. Like most children, Andy likes to play video games, and he always complains when I put limits on his playing time. Andy is philosophical by nature. “I don’t get it,” he says, “Isn’t the point of life to be happy?”

And I calmly tell him, “No, son. The purpose of this life is to know, love, and serve God, so that we can be happy with him in the next.” And then I add, “But I think God wants us to be happy in this life too. That doesn’t mean life should be without suffering or sacrifice.”

By this point, his eyes have glazed over, but he gets alarmed about what suffering and sacrifice might have to do with his video games, and so he tries a different angle, “But isn’t being happy the same thing as having fun?”

My son is intelligent, so the first time I heard this, it was a surprise to realize that he wasn’t able to distinguish the two. At 8 years old, he simply equated happiness with having fun. Even Andy’s quest for fun shows some sign of maturity relative to, say, my youngest child, Claire, who probably equates happiness to being healthy, eating good food, and having a clean diaper. These things are undoubtedly part of a happy life, but maturity brings a different understanding of happiness. As adults, our happiness hinges on other things: finding someone to love and being loved in return; having some confidence about the future, as individuals, as a world; having a sense

of purpose or meaning in our work and our lives. Even these goods lack the permanence needed as a basis for happiness. Our hearts are restless, as St. Augustine put it. The mature Christian, and maybe the theist more generally, answers this yearning by seeking him who is the source of these goods, of all love, all hopes, and all purpose. This ultimate end of communion with God is precisely what St. Paul was writing about.

Together, this is the Catholic vision of the good life. It is a firm and objective vision of a life where the material goods that serve the body are integrated together with the higher spiritual gifts, these virtues that nurture the soul and lead us to God.

I spent this time discussing this for two reasons:

First, it is important to have a vision of the good life as a starting point before moving on to a vision of the good society, and the economy's role in that. Since we are made for communion not only with God, but also with others, a good society not only assists individuals in the good life, but it integrates the whole of society. This is what the Pope means when he talks of "integral human development", development that includes all aspects of man (body and soul) and all elements of society.

Second, both Vittorio and Luigi touched on virtue, and virtue is central to the Catholic vision as well. St. Gregory of Nyssa wrote, "The goal of a virtuous life is to become like God". Virtues are those habits or attitudes that orient us toward good things, and ultimately toward God. This Catholic view of virtue stands in striking contrast, however, to the views of Macchiavelli, Mandeville, and Malthus that Vittorio discussed so well. In their minds, virtue was judged in how it served material outcomes in society. Virtue was merely a means to an end. The Catholic has the opposite hierarchy, at least when considering the higher virtues. In fact, St. Thomas Aquinas said that material goods are only good to the extent they are "necessary for the practice of virtue." So material goods are placed at the service of virtue; the spiritual is above the material. In the Catholic vision, both virtue and the material outcomes are means to the ultimate end – God -- but virtue is certainly much further down the chain. The ordering is reversed.

So this vision, which includes both material goods and virtue, and all people is an objective vision of a good society, and it is important as a compass for orienting us in evaluating a moral economy, but it also lacks detail. The title of the session referred to measurement, and the extent

to which a society foster communion with God and others is not going to be particularly operational measure. I'll instead look at some proxies or measures of some good aspects of societies, starting with the material goods, such as income and health, and broadening out to other measures, including at least simple measures of virtue.

Let's first consider material living standards. As economists, this is our comparative advantage, and it's a dimension along which humanity has fared remarkably well. It's said that the Church thinks in centuries, so let's add some historical perspective. Over the past few centuries, our conceptions of what is "necessary for the practice of virtue" have changed dramatically from what St. Thomas would have considered. In the 17th century France, Henry IV's noble goal of minimum prosperity was a "chicken in every pot" on Sunday. By 1928, Herbert Hoover's presidential campaign goal had become a "chicken in every pot, a car in every garage". Today in the U.S., we would probably say an I-phone in every pocket.

But up until the late 18th century, nearly everyone lived on at most the equivalent of a few dollars a day. Historically, high civilization was characterized by the arts, literature, government, trade, and even technology, but not by high living standards for the masses.

How do we know this? For some countries, England for example, we can measure this directly using detailed wage and price data that was preserved in records of public markets, artisan guilds, monasteries, etc. The working man's wages in London in 1700 didn't differ substantially from the evidence we have for wages in Alexandria at the time of the Roman Empire or Egypt in 1950, for that matter. Health measures also indicate low and stagnant material living standards. The detailed data on height that we have from slave records, military records, and skeletal evidence show no upward trend over many centuries. Over ten thousand years the average height of a European man stayed relatively constant at 5'6" (about 168 cm). Today, it is about 5'10 (178 cm). Life expectancy data, some of which we again have through Church records on baptisms and death, also shows relative constancy. In 1820, the average life expectancy in Europe and the U.S. was about 36 years. Today, it is in the high 70s.

Looking backwards for centuries, Thomas Malthus was certainly correct in his analysis, but the data were beginning to betray him. He had the bad luck of writing a theory that was becoming obsolete at precisely the time 1798 and place (Manchester) that it was written. In

another sense, he was lucky, however: if the editorial process for economics was as slow back then as it is today, he might never have gotten tenure.

In any case, since 1800, average real incomes (after adjusting for inflation) have risen 22 fold in the U.S. and 17 fold in Germany, and this type of growth has come to characterize the industrialized economies.

I want to make two points here.

First, I've described average income, but our emphasis on all parts of society brings up a natural concern for distribution. On a global scale, we hear about the bottom billion, the people in the world who live on just a dollar or two a day. Not only has man been poor for a great deal of time, but a great number of people are poor today. Growth in averages still tells us much of the story: most people are poor, simply because they live in areas that haven't grown.

Second, dramatic growth leads to changing concerns. Even at low incomes, both material and spiritual needs are important, but as material resources rise and material needs are satisfied more and more, I think there is some tendency for these non-material resources to take on greater importance. In that sense, perhaps the development of a society has some parallel with the development of an individual. These non-material resources (families, values, character, faith, hope and charity) are the most difficult to redistribute. They are also the realm in which the Church has the most expertise.

Income itself captures an important but a relatively narrow aspect of life. It's a useful measure that tends to correlated with other good things like health, education, etc., but by itself it shouldn't be confused for the integral human development that the Church promotes. Economists have also considered other alternatives to measure as broader indexes of human welfare to compare societies across space and time. Amartya Sen and the UN have promoted the Human Development Index, which includes life expectancy and education with income. Recently, Chad Jones and Pete Klenow developed a utility-based metric that incorporates life expectancy, leisure and inequality. I am not a big fan of these approaches because I would rather just know the facts along different dimensions, and then we can discuss how to value the tradeoffs.

Then there is the happiness literature, where we simply ask people to rate how happy they are or how satisfied with their life they are on a scale of 1 to 10. This may seem the broadest, but I also don't see this as a silver bullet.

I can think of two obvious limitations. Originally, Easterlin claimed these data showed that money doesn't buy happiness, at least after a certain minimum standard. Now Deaton and Stevenson and Wolfers tell us that money does indeed buy happiness, as long as we measure it in percentage terms. It's clear that material wealth and subjective happiness share an important relationship, but it seems odd to debate whether a relationship is linear or log-linear, when we're talking about something without a natural and meaningful metric. I'm reminded of the opposite case, when the doctor asks you to rate your pain on a scale of 1 to 10, and you're never really sure how to answer that. I always try to leave some room at the high end, just in case I'm about to feel a pain I've never experienced.

This brings up the second limitation with a purely subjective measure: it may differ distinctly from the objective measure for many reasons, and one reason is certainly ignorance of something better. How can I convince my son that there is more to happiness than video games? In a larger sense, it's the paradox of the Church's mission: "How does one tell the world about a love and joy beyond all telling?"

Let me come last to the idea of virtue, which is an idea that has been somewhat neglected or even resisted in economics. In many ways, I'm sympathetic with this view. It's often too easy to appeal to human virtue as the solution to economic problems. In at least this way, economists may be the rare social scientists who take seriously the fall of man, which Cardinal Marx spoke of yesterday, and that is a good thing. I'm reminded of GK Chesterton, who was exasperated that optimists would deny the idea that man was fallen or sinful. He said, "It's the one part of Christian theology that we can prove empirically."

On the other hand, surveys show differences in attitudes across cultures. These attitudes manifest themselves in behavior, and so I agree with Luigi that it is an important topic to be studied. Luigi used the words "civic capital" rather than virtue. His work on trust would find great audience with Pope Benedict. In his most recent encyclical, that

“[Fair exchange] alone *cannot produce the social cohesion that it requires in order to function well. Without internal forms of solidarity and mutual trust, the market cannot completely fulfill its proper economic function.*” (CV 35)

In the case of trust, it is not clear to me the extent to which our measures of trust are capturing a stock of a personal virtue or a social phenomenon. Is it a personal virtue, and individuals are more trustworthy in certain societies? Or is it a social phenomenon, where social ties are simply stronger in some places, or simply different equilibria: some societies have gotten into a virtuous cycle, where others are caught in a vicious circle? I think Jim Heckman’s work on non-cognitive or social skills is another important example, where we find virtue playing a role.

Virtue is also something that can be invested in. Indeed, if you think about raising your children, most of parenting efforts are not spent investing in teaching them traditional skills (reading, writing, math), but instead teaching them values, habits, good character. I think the family is certainly important here, but so are other the determinants of investment behavior. Guillermo Ordonez, Simeon Alder and I are in the early stages of modeling the role of virtue as a commitment technology in sustaining informal insurance relationships. We hope to answer questions about who has the most incentives to invest in virtue and how public interventions might promote or undermine these investments. The extent to which lower virtues are truly instrumental in the aggregate, which both Vittorio and Luigi address is another interesting question.

In the end, there is a great deal of the good life and the good society that is beyond the scope of economics and measurement but a great deal that is within it. In most countries, we have made remarkable, unprecedented progress in material living standards, the traditional sphere of economics. But life isn’t all good food, clean diapers, fun and games. This makes new subfields studying virtue, social ties, the life skills, family relationships, etc. all the more relevant to the world. In this sense, there seems to be a natural convergence of ethical and economic life.