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*SYMPOSIUM*

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# Does Economics Need an Infusion of Religious or Quasi-Religious Formulations? A Symposium Prologue

Daniel B. Klein<sup>1</sup>

[LINK TO ABSTRACT](#)

This symposium, co-sponsored by the Acton Institute, aims to explore whether ideas or concepts with religious overtones—or even overtly religious concepts—do or can enrich economic thinking. So, broadly, the symposium is about connections between economics and religious faith.

The topic is not, however, whether religious communities need economics—everybody needs economics! Nor is the topic whether a society benefits economically or otherwise from religiosity.<sup>2</sup> Nor is it the economic analysis of religious activity.<sup>3</sup>

Rather, our focus is the enrichment of economics: Is economics suffering from an undue flatness? If so, why is that happening? If economics needs an infusion of richer concepts, what are some of the richer concepts? Also, if economics needs an infusion, *for what purposes* is it that such infusion is needed? What purposes is economics trying, but failing, to serve, because it lacks richer concepts?

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1. George Mason University, Fairfax, VA 22030. For helpful discussion and/or feedback on this piece I am grateful to Niclas Berggren, Victor Claar, Ross Emmett, Robin Klay, and Paul Mueller.

2. There are, of course, vast literatures on whether society benefits from religiosity (or what sort of religiosity). Some recent studies include McCleary (2008), Berggren and Bjørnskov (2011; 2013), Basten and Betz (2013), and Wiseman and Young (2013). Meanwhile, I recommend Larry Siedentop (2014), contending that Christianity was crucial to the emergence of Western liberalism.

3. On the economic analysis of religious behavior, see Iannaccone (1998), McCleary (2011), and Oslington (2014).

Supposing that economics does need richer concepts, what if the richer concepts have religious overtones? If economists were to incorporate concepts that have religious overtones into their thinking and discourse, would that necessarily bring faith into economics? If so, would that be a problem? Why or why not?

Economists Deirdre McCloskey (2010a), Vernon Smith (2012), and others call for a richer understanding of the human being. Along with the economist Bart Wilson, they call the enriched economics “humanomics.”<sup>4</sup> But what if understanding the human being is tied up with religious beliefs or religious understanding, or, at any rate, concepts that have a religious flavor and connotation?

Our topic—whether economics needs an infusion of religious or quasi-religious formulations—has already been addressed by others. The topic is addressed regularly in the work of various associations, programs, schools, and journals. In organizing the present symposium, I asked Professor Robin Klay to provide a brief guide to economics-oriented faith-based networks, organizations, programs and publications, particularly in the United States, as well as to highlight some of the prominent economists of the postwar era who have openly connected their religious faith and their work as an economist. Her splendid report, “Where Do Economists of Faith Hang Out? Their Journals and Associations, plus Luminaries Among Them,” makes part of the present symposium (Klay 2014).

I confess that I regard economics as unduly flat, and I favor infusing quasi-religious concepts into economics. Such a development would presumably tend to give a larger place to faith within economic discourse. Though I myself am not religious, I think that such developments would be a good thing.

Many critics complain that professional economic discourse tends to flatten matters down to certain admissible concepts, methods, or modes of discourse. The complainers vary in political ideology, religious belief, methodology, and other ways.

I count myself among the complainers. Let me rattle off some complaints according to my own lights, to provide some context: I think professional economics tends (too much) to flatten decision down to choice; to flatten human action down to optimization; to flatten knowledge down to information; to flatten motivation down to incentive; to flatten discovery down to deliberate search; to flatten morality down to constraint or preference; to flatten aesthetics down to preference; and to flatten the conscience down to nothing. Economics tends to flatten competition down to certain technical notions, and it tends to eliminate entrepreneurship. It tends to confine freedom or liberty to matters of the possibility frontier. Also, it tends to give to some of its central concepts a semblance

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4. The term “humanomics” was used previously, and the journal *Humanomics: The International Journal of Systems and Ethics*, now edited by Masudul Alam Choudhury, has been published since 1985.

of precision that, in most any genuine human issue, turns out to be false. Such concepts with a false semblance of precision include individual utility, social utility or welfare, and efficiency. The semblance of precision is often achieved by keeping the discussion flat.

What are some of the “richer concepts” that economics supposedly stands in need of? Again, I can only suggest some that I personally fancy, but it is hoped that the symposium will prompt the contributors to elaborate on ideas that they feel would enrich economic discourse.

To approach some richer concepts, consider the explicit use of allegory. I think allegory that invokes a universally benevolent and super-knowledgeable being is essential to some important economic ways of speaking (Klein 2012a, ch. 5). I think some such allegory is essential to talk of the price system as a system of communication, to talk of an extensive cooperation throughout the economic system, and to talk of market error and correction (2012a, ch. 14; 2012b). I think that some such allegory can be helpful in talking of aggregating social costs and benefits and even in expositing the very idea of an ‘economy’. These are just some possible examples, and I suggest others below.

I embrace some such concepts and regard them as quasi-religious. But others who also wish to embrace some such concepts might be inclined to drop the “quasi-”. Since many people and many economists are of religious faith, it will be natural for them to associate any such allegories and other similarly evocative concepts with their religious faith. And doing so may give a life and vitality to the richer concepts. Also, if some economists incorporate religious faith, they might be more successful in teaching economics to religious audiences.

It is still true that economics training often trains the student to think of the human being as a utility maximizer. McCloskey (2006; 2010b) has critically examined such representation of the human being, calling the representation “Max U.” George Stigler (1971, 274) called utility maximization an organon, that is, a postulate that organizes discourse. Some of the flattening in economics relates to that organon.

Starting from the notion of Max U, I now proceed to entertain some ideas that, *to me*, seem important and yet tend to be downplayed or even precluded in economics.

‘Utility’ is nondescript, and there are virtues in its being so. But there might also be a hazard in being too reluctant to say what it is that yields utility. Part of economic understanding is understanding the arguments of utility functions, so to speak. Consider some possible arguments that might be quite general to humans:

- One possible argument of a utility function is coherence. Why is it that we can become so upset when we fail in trifling tasks or make a mistake? Maybe it is because such failures seem to mock

our faith that we can go forward with self-coherence. Perhaps some such faith is our salvation from stagnation, incoherence, and emptiness.

- Coherence relates to larger purpose. Faithfully advancing larger purpose relates to living an integrated life, or to integrity, or even purity. Søren Kierkegaard (1948/1847) said, “Purity of heart is to will one thing.” But here Kierkegaard certainly would not admit the ‘utility’ of Max U as such a “one thing,” because, by postulate, ‘utility’ is imputed to whatever it is that is willed. No, the one thing must be meaningful; it must have form and distinctness, even if fuzzy. Adam Smith (1790, 235-237) spoke of “universal benevolence.” That is one thing the willing of which might give your actions coherence.<sup>5</sup> Sure, it is loose, vague, and indeterminate, but not meaningless.
- Advancing universal benevolence is not necessarily as ascetic as some might suppose. Delighting in that chocolate milkshake or the football game on TV might be your best way in the moment to advance universal benevolence, since your delight makes a part of the whole and pleases the benevolent beholder. Also, without some of the more profane rewards you simply might not be able to keep up the program, or to keep it on a sensible track, or to be creative in discovering new and better tracks. One might structure such recreation as habits, rituals, or Sabbaths, using rules.
- Rules—expected regularities, associations, maxims, presumptions—emerge in our consciousness: rules regarding the constituents of our purpose, regarding ways outside of ourselves to advance the purpose, regarding ways inside of ourselves to get our multiple and conflicting subordinate impulses or passions to advance those outside ways, and so on. We develop allegiance to rules, or a sense of duty. At night when we lie down to bed, we want to feel that we’ve had a good day, that we have met our duty. Is meeting our duty an argument of our utility function?
- From reading *The Wealth of Nations* one may figure that earning honest income is a good way to advance universal benevolence. One might even feel that augmenting his honest income is a duty, figuring that, other duties not going neglected, the more honest

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5. “If a man should will one thing, then he must will the Good, for in this way alone was it possible for him to will a single thing” (Kierkegaard 1948/1847, 175).

income he earns, the more he advances universal benevolence.

One might regard his line of work as his calling or vocation.

Here I have suggested some things for the utility function—such as coherence, purpose, and duty—that economists do not often discuss. Now let's consider another facet of Max U, namely, maximization. Maximization presupposes a maximand, which presupposes not only the arguments over which to maximize, but a functional form. All that Max U needs to do is to adjust the values of the variables he controls to achieve an optimum. The logic of his choice takes place within a singular, fixed interpretation of his alternatives and their consequences. The logic precludes consideration of certain facets of human action:

- Kenneth Burke (1932, 215) said: “If decision were a choice between alternatives, decisions would come easy. Decision is the selection and formulation of alternatives.” If the tight logic of choice is represented by Max U, what would represent a loose logic of decisionmaking?
- Decision doesn't always come easy because the formulation of alternatives entails interpretation, and the universe of interpretations is open-ended. A valuable interpretation is one that holds out opportunity. Clinging to your faith in self-coherence, you wish to believe that you've seen the most valuable interpretation among those that are obvious. Once you realize that you've overlooked an obvious opportunity, that you've erred, you kick yourself. (Kicking yourself is one of those rules you had better maintain.) Then you feel regret and, if you can, you correct yourself. Regret would seem to be essential to learning and economic growth. But it is not treated much by economists; it is doubtful that Max U ever feels regret. A logic of decision-making would entail moral sentiments.
- Besides the missing of an obvious opportunity, there is the beholding of non-obvious opportunity, the spark of entrepreneurship, the epiphany. This, too, is important to economics. Often have critics complained about the slight place given to entrepreneurship in economics.
- Notions of entrepreneurial discovery and its inverse, error, entail a multiplicity of interpretations. But economics sometimes seems blind to interpretation. In economics, knowledge is flattened down to information. Economists speak of asymmetric information, but that obtains within a single, fixed interpretation, within a tacit assumption of symmetric interpretation. Economists rarely



speak of asymmetric interpretation. Nor do they speak much of judgment, that is, deciding which interpretation to act on.

- The human being is continually reinterpreting herself and the world. Kierkegaard (1989/1849, 43) said: “The self is a relation that relates to itself.” What if the most essential feature of the human being is that there is no getting to an upper-most optimization problem? If that is the case, then Max U not only fails to help us address the most essential feature of the human being, it may also inculcate wrongheaded notions of the human being.

Thus, according to my own lights, are some of Max U’s limitations and inadequacies, even jeopardies. If some of them ring true, it should be obvious that people of faith in theistic religions will often interpret the matters in religious terms. For them, the impartial, benevolent, super-knowledgeable, universal spectator is God. For them, man is a soul reflecting his Creator (*imago dei*). A religious commentator might also point out that, as is seen in the term for one who translates spoken language, an *interpreter*, the term *interpretation* derives from the Latin *interpres*, meaning agent or translator, and thus that when we interpret the world or some little corner of it we translate, however poorly, the will or meaning of Someone’s expression. That expression, it might be said, is better grasped when we transcend one interpretation to arrive at a better interpretation—the entrepreneur as exegete.

## A buffet of questions for contributors to consider

The main question has already been posed: Does economic thinking need enrichment from religious or quasi-religious thinking? The main subsidiary questions, too, have also been posed. Here I pose some follow-on questions, some of which repeat or rephrase questions already posed above. Contributors are invited to respond to whichever questions they wish, in whatever manner—not neglecting, even focusing on, the questions as posed in the text above.

Also, we have encouraged contributors to view the symposium as the reader’s opportunity to learn about their works related to the present themes. We have encouraged contributors to give the reader a guide to such writings. We have told contributors: Don’t be bashful; please, cite a half dozen of your own works.

1. Can you tell us about your own religious background and biography? What is your own religious outlook?

2. What does your faith bring to your economic thinking that is otherwise lacking in, or even precluded by, mainstream economics? Are such faith-based elements suggested by your faith in particular, or are they suggested by religious faith generally?
3. If you see certain vital concepts that are inspired by your faith and that deserve more place in economics: Do those concepts necessarily entail religious faith? Does appreciating them depend on believing in God? Or can they be developed, taught, and sustained as a worthy allegory or by some other approach?
4. Does your faith inform the kinds of questions you choose to research? (If so, please give examples.)
5. Do you use religious sources, such as the Bible, as a resource for economic understanding, instruction, or research? For example, for gaining economic insights, for illustrating economic ideas, or for evaluating economic ideas?
6. Do you feel that the economics profession exhibits biases against religion generally or against your faith in particular? Has your career as an economist suffered in any way on account of your religious faith?
7. Why are very few prominent economists openly religious? Is it because prominent economists who are religious have chosen to be reticent about their faith, or because there simply are few prominent economists who are religious? If you think either or both reasons are true, why are they true? Why is it so?
8. What is your take, as a person of faith, on Max U?
9. What is your interpretation of Adam Smith's invisible-hand clause in *The Wealth of Nations*?<sup>6</sup> Is it just a metaphor or is it a reference to divine providence, with God as the being whose hand is invisible?

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6. The clause is: "...and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention" (Smith 1976/1776, 456).

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## About the Author



**Daniel Klein** is the editor of *Econ Journal Watch*, a professor of economics at George Mason University (where he leads a program in Adam Smith), the JIN Chair at the Mercatus Center at GMU, a fellow of the Ratio Institute in Stockholm, and the author of *Knowledge and Coordination: A Liberal Interpretation* (Oxford University Press, 2012). His email address is [dklein@gmu.edu](mailto:dklein@gmu.edu).

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# Where Do Economists of Faith Hang Out? Their Journals and Associations, plus Luminaries Among Them

Robin Klay<sup>1</sup>

[LINK TO ABSTRACT](#)

Moses famously answered God's call with, "Who am I to go to Pharaoh...?" This was close to my reaction when given the assignment to find out *where* economists of religious faith hang out. Specifically, what journals, websites, institutes, and associations exist to encourage intellectual engagement by economists who are religious? My second assignment was to identify outstanding economists of the last 65 years whose contributions to the field have been shaped in some way by their faith—a task which surely requires the help of Moses's mouthpiece, Aaron.

In this short paper I am restricting my scope to the three major Abrahamic religions. I have some experience with various conferences and organizations in which Christian economists exchange ideas about connections between their faith and their discipline. However, until this assignment, I had no experience with organizations in which Jews or Muslims do the same. Hence, the "Who am I...?" reaction.

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1. Hope College, Holland, MI 49422.

## Where economists of religious faith hang out

Fortunately, as a Christian economist, I am interested in the common faith traditions of Jews, Christians, and Muslims, as well as differences of emphasis, institutions, and cultures. Consequently, it has turned out to be a pleasure to sleuth my way through the Internet and colleagues' minds to uncover organizations that are important to economists who belong to faith groups.

My goal is to give you a feel for the nature of each organization. Who are the major players? What are the topics they engage? What journals, conferences, or other means do they have for collaborating and reaching various audiences? Having just confessed my necessarily limited exposure to most of these organizations, I encourage readers who are more knowledgeable to help fill in the lacunae and correct errors that surely follow; one way to do so is to comment on this article [here](#).

What I discovered was that a clear majority of the organizations I could identify as joining 'economics' or 'markets' with faith either explicitly adopt a pro-market position or disproportionately attract economists with such a perspective. I owe to Daniel Klein the hypothesis that perhaps religious economists who are more inclined toward assuming a large role for government do not feel the need to organize or create think tanks, journals, and organizations reflecting their views. After all, their own views are quite visible in academic social science and religious studies professional circles. In a voter-registration study done by Christopher F. Cardiff and Klein (2005, 246-247), using data from 11 California universities, they found the ratio of Democrat to Republican registrants among tenure-track professors to be 2.8:1 for economists, 6.8:1 for social sciences in general, and 8.0:1 for religious studies. Thus, when economists find themselves in universities where religious studies are overwhelmingly dominated by Democratic views, they should find that setting favorable for advancing the view that religion is most congruent with left-oriented economic views. I was directed to a ranking online of 218 religious studies journals ([link](#)). One must imagine that the vast majority of such journals, in dealing with social or policy issues, tend to the left; economists who tend to the left do not need to create forums to express their outlook.

Coming at it from the other side, that is, from the right-leaning scholars of faith, it seems natural that they might use the term *economics* as a banner under which to develop pro-market thinking. It is well known that economics is the most pro-market discipline. My experience is that ministers, priests, and seminary professors overwhelmingly assume a left-leaning viewpoint, holding that those who care about poor people (as well as the environment) should advocate for

government to remedy what are regarded as moral failures of markets. In my informal survey of Protestant ministers, rarely has one taken even one college-level course in economics.

With this expectation that the organizations described here are likely not representative of the political economic views of most economists of faith, I begin with the organization I know best, the Association of Christian Economists (ACE). It was formed in 1982, by several economists at Calvin College (Christian Reformed Church), Gordon College (nondenominational), and Wheaton College (nondenominational). In particular, John Mason, Bruce Webb, and Stephen Smith, all of Gordon, gave enormous time and expertise to creating, shaping, and sustaining ACE and its journal *Faith & Economics*, which in 1999 succeeded and improved upon the *Bulletin of the Association of Christian Economists*. Presidents of the Association represent a sampling of Christian economists who are well known for their professional acumen as well as strong commitment to their faith, including A. M. C. Waterman (St. John's College, Winnipeg), J. David Richardson (Syracuse University), Judith M. Dean (U.S. International Trade Commission), P. J. Hill (Wheaton College), Andrew Yuengert (Pepperdine University), and John Lunn (Hope College).<sup>2</sup> Indeed, several are contributors to this symposium.

The membership of ACE, numbering about three hundred, consists of professors at research universities and at Christian and other liberal arts colleges, as well as professional economists in industry and government. According to the current ACE president, there is no way of knowing what proportion of the membership is Protestant, Catholic, or Orthodox. The association was begun by Protestants, but soon attracted Catholics. The majority represent mainstream economic thought and tend to support market systems. A few are heterodox, for example those who take the view that Christian economists should base their research on assumptions about humans that cohere with 'Biblical teaching' and the idea that all domains of human experience and thought should reflect the sovereignty of God.

Among ACE members there is a longstanding difference of opinion about what constitutes a *Christian economist*, and therefore about the purposes of the organization. The majority believe that by doing economics well—using standard theoretical and statistical tools—they effectively employ their God-given gifts to serve through doing 'normal science' in their profession. But some members hold that Christian economists should approach their discipline with assumptions and

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2. In each case the institution named is the one served during that person's presidency. Other presidents were Gerald Brock (George Washington University), William F. Campbell (Louisiana State University), John Anderson (University of Nebraska—Lincoln), Chris Barrett (Cornell University), and Earl Grinols (Baylor University).

concepts that better reflect Christian teaching on human nature and human well-being, concepts such as vocation (work as a gift and means to serve), abundance, and wants limited by humility and by the needs of others. Many members are active in communicating to fellow Christians important economic principles regarding issues like social justice and in exercising their Christian values as consumers, entrepreneurs, policymakers, and voters.

The Association of Christian Economists UK began in 1979 (two years prior to its U.S. cousin). They no longer publish a journal but do organize discussion paper series.

In what follows I mention numerous other organizations, most of which I have not had any real contact with. Where I quote promotional copy from their website, I am showing how they describe themselves, not confirming their descriptions.

At least two think tanks contribute research and disseminate ideas about how economic life—work, entrepreneurship, etc.—can be integrated with Christian faith and life.

1. The Acton Institute (the cosponsor of the present symposium) is named after the classical liberal English historian Lord John Acton, who was a Catholic. The Institute's motto is "For the Study of Religion and Liberty." It publishes the *Journal of Markets & Morality*, as well as several monograph series. Their mission "is to promote a free and virtuous society characterized by individual liberty and sustained by religious principles" ([link](#)). They invite academic research on economic principles and connections between virtue and economic thinking. Fr. Robert Sirico co-founded the Acton Institute with Kris Mauren in 1990. Acton Institute's perspective has been greatly influenced by Michael Novak, and it offers an annual "Novak Award" for scholarship. The Acton Institute explores especially Catholic and Protestant contributions to economic thought, but welcomes reflection by persons of other faiths.
2. The Institute for Faith, Work, and Economics, located in McLean, Virginia, offers white papers, speakers, and seminars to equip citizens to promote "an economic environment that not only provides us the *freedom* to pursue our callings and flourish in our work but also reflects the inherent dignity of every human being" ([link](#)). The Institute is founded upon the conviction that humans are created in God's image, and like Him, are meant to work, using their talents for God's glory and the flourishing of society. The title of their blog, "Creativity, Purpose, Freedom"



([link](#)), suggests their orientation. The Institute wants to help Christians understand the economy in Biblical perspective, and encourage them to partner with God to “alleviate poverty, address greed, and view possessions properly.”

Several organizations encourage economists to explore connections between their discipline and the Catholic Church, including the following two:

1. CREDO: Catholic Research Economists Discussion Organization, organized in 2013, grew out of conference activities sponsored by the Lumen Christi Institute at the University of Chicago. CREDO is “a society of research economists interested in the conversation between the Catholic faith and economic research as it applies to the economy, the Church, and broader society” ([link](#)). Economists on the CREDO Executive Board are Peter Arcidiacono (Duke), Francisco Buera (UCLA and Chicago Fed), William Evans (Notre Dame), Jesus Fernandez-Villaverde (Penn), Joseph Kaboski (Notre Dame, president of CREDO), Maureen O’Hara (Cornell), and Valerie Ramey (UC San Diego). CREDO has assembled an “Advisory Panel” of more than 40 professional economists, among them Christopher Barrett (Cornell), George Borjas (Harvard), Casey Mulligan (Chicago), Ricardo Reis (Columbia), Eric Sims (Notre Dame), Chad Syverson (Chicago), Robert M. Townsend (Chicago), and Andrew Yuengert (Pepperdine). The panelists are to be “publicly available for Church leaders, institutions, and members of the media needing advice or information on matters related to economic research or economic policy. ... Most, though not all, of the Advisors are practicing Catholics, but not all are well-versed in Catholic social thought” ([link](#)).
2. The Annual Conference on Economics and Catholic Social Thought, sponsored by Lumen Christi Institute, “brings together leading economists, social theorists, ethicists and bishops to discuss and debate state of the art research relevant to important economic and social issues, which are also of interest to the Church at large” ([link](#)).

In a search of information about organizations that encourage research and discussion of connections between Judaism and economics, I discovered the Jerusalem Institute for Market Studies (JIMS) and its Center for the Study of Judaism and Economics (CSJE). Founded by Robert and Corinne Sauer, JIMS ([link](#)) is market-oriented and focuses primarily on policy issues in the Israeli economy such as agricultural subsidies, taxes, education, marijuana legalization,

and measuring poverty. Several JIMS-sponsored conferences include presentations about religion and economic liberty, and capitalism and freedom. I highly recommend a two-part talk given by Nobel Prize winner Robert Aumann at the inauguration of JIMS, “Judaism and Economics” (video: [part 1](#), [part 2](#)), in which he shows how the Talmud takes up issues of economic incentives, which are affected by price fixing, moral hazard, and cancellation of loans. He points out that the Talmud deals with problems caused by schemes to “fix the world,” which so distort incentives that they hurt those they are designed to help. Thus, Aumann says that the Talmud’s understanding of economic principles and activities is often similar to what we find in modern economics.

Turning to Islam and economics, my first contact, several years ago, was with the website of the Minaret of Freedom Institute. The Institute’s aim is to explore connections between Islam and free markets by educating both Muslims and non-Muslims ([link](#)). Institute founder Imad-ad-Dean Ahmad contributes the lion’s share of writing and speaking for the Institute, which is based in Maryland. Ahmad is a natural scientist by training who has committed many years to understanding and promoting free market institutions in predominantly Muslim countries, giving talks such as “Free to Choose Madrassas” and “Islam, Commerce and Business Ethics.” I was unable to locate any professional economists among the Institute staff or those they recommended as experts on economic issues.

There are several associations and journals dedicated to exploring economic issues and policies in connection with Islam. They include:

1. The *American Journal of Islamic Social Sciences* (AJISS) is published by the North American Association of Islamic and Muslim Studies, which prior to April 2013, was called the Association of Muslim Social Scientists of North America. AJISS is now published solely by the International Institute of Islamic Thought, located in Virginia. My brief look at the journal reveals few contributions from economists, though I was intrigued by one economist who has published in this journal: Abdul Azim Islahi, Professor in the Islamic Economics Research Center at King Abdulaziz University in Saudi Arabia. More on his work later.
2. *Islamic Economic Studies* is published twice a year by the Islamic Research and Training Institute of the Islamic Development Bank Group, Saudi Arabia ([link](#)).
3. The *Review of Islamic Economics*, an organ of the International Association for Islamic Economics and the Islamic Foundation UK, is published twice yearly. The Review “provides a forum to the specialists wishing to contribute to the development of

Islamic economics, banking, and finance as a distinct branch of knowledge” ([link](#)).

4. The *Journal of Islamic Economics, Banking and Finance* ([link](#)) is published four times a year by Islami Bank Training and Research Academy, associated with Islami Bank Bangladesh Limited.
5. *The International Journal of Islamic and Middle Eastern Finance and Management* ([link](#)) is published by Emerald, UK.
6. The *ISRA International Journal of Islamic Finance* ([link](#)) is published by the International Shari’ah Research Academy for Islamic Finance in Kuala Lumpur.
7. *International Journal of Economics, Management, and Accounting* “is dedicated to the development, promotion and understanding of Islamic Economics in its widest sense” ([link](#)). It is published by the International Islamic University Malaysia.
8. The *Journal of Islamic Banking & Finance* ([link](#)) is published by the American Research Institute for Policy Development, New York.<sup>3</sup>

Islahi (2014) says that these organizations and their journals not only promote understanding between West and East, but they “give special emphasis to the development of Islamic scholarship in contemporary social sciences...[and also] integrate Islamic revealed knowledge and revive ethical and moral knowledge.”

A few professional associations and journals concern themselves with the study of religion and economics but are not restricted to one faith. The following two seem most visible:

1. The Association for Social Economics (ASE) publishes the *Review of Social Economy*, which welcomes research and essays regarding connections between social values and economics. Among the subjects addressed are income distribution, justice, poverty, cooperation, human dignity, labor, the environment, economic institutions, and economics methodology. The Review attracts contributions largely from social justice Catholic economists (as well as other social scientists) and “welcomes discussion about pluralism in economics” ([link](#)). One of their Trustees is Daniel Finn of St. John’s University.
2. The Association for the Study of Religion, Economics, and Culture (ASREC) promotes interdisciplinary scholarship on religion through conferences, teaching, and research. Laurence R. Iannacone founded the organization and is regarded as a

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3. Thanks to symposium participant M. Kabir Hassan (2014) for his contribution of items 5 through 8.

pioneer in the economics of religion. ASREC especially encourages research based on the rational choice paradigm. ASREC is housed within the Institute for the Study of Religion, Economy, and Society at Chapman University in Orange, California ([link](#)).

## **Faithful economists recognized for outstanding contributions to their profession since 1945**

How does one make up such a list? Given the loose nature of the task, perhaps we should designate this as a list of finalists for the “Klay Award.” Occasionally, a student of mine ‘discovers’ a new cross price-elasticity, e.g., the demand for dark chocolate relative to the price of Dopamine; thereafter, I call it “Josephine’s elasticity” or similar. So, why not the Klay Award?

I first turned my thoughts to Muslim economists, about whom I knew and know the least. Rummaging around the Internet, I encountered the work by Abdul Azim Islahi, and I wrote him asking for information about organizations that encourage research by Islamic economists, and for suggestions of the most outstanding Islamic economists of our ‘era’ (since 1945).

Islahi sent me a copy of his manuscript “First and Second Generation Islamic Economists: Deviations and Differences in Thoughts” (Islahi 2013). Islahi provides a rationale for identifying a first generation as those who started writing on Islamic economics between 1950 and 1975, and a second generation between 1975 and the present. According to him, the first generation of 1950 to 1975 experienced hostility to looking at economics from an Islamic perspective. The second generation began with the first International Conference on Islamic Economics at King Abdulaziz University (Islahi’s university), in early 1976. Islahi reports that this effort greatly stimulated support for research in Islamic economics. A second conference was held in 1983, the same year that the first refereed professional journal in the field was launched, the *Journal of Research in Islamic Economics*, renamed the *Journal of King Abdulaziz University—Islamic Economics* in 1989.

Islahi (2013) identifies many well published Islamic economists from each “generation,” as well as “founding scholars” who wrote in the field prior to 1950. Among the latter is Abul-Ala Mawdudi, widely considered the central figure in the mid-century rise of Islamic economics as a distinctive concept (see Visser 2009, 1-4). And among the first-generation economists are at least three other King Faisal International Prize winners: Muhammad Nejatullah Siddiqi, Khurshid Ahmad, and Muhammad Umer Chapra.

Let us consider now Christians who have brought their faith to bear in the study of economics and greatly contributed to their discipline. In addition, we will look at the work of those Christians, who (whether professional economists or not) have opened up issues relating faith and economics to a wide public audience. My own nominees for the first ring of excellence are: Kenneth Boulding, E.F. Schumacher, and Michael Novak.

Kenneth Boulding was awarded the prestigious John Bates Clark Medal of the American Economic Association (1949). Having begun his career in conventional economics, Boulding went on to challenge the profession with his criticism of equilibrium economics. For our purposes, he is especially worthy of mention because he developed peace economics. In this regard he had an impact around the world, including during negotiations to limit nuclear arms. Boulding's pacifism grew out of his conversion to Quakerism; his Christian faith was deep, if not always conventional.

E. F. Schumacher gets my second nomination for the first ring of excellence. His most famous work was *Small Is Beautiful: Economics as If People Mattered* (Schumacher 1973), in which he argued for the application of intermediate technology in Third World countries to address shortfalls in capital. Perhaps few know that Schumacher was a committed Catholic. He referred to "Buddhist economics" in his book to get the attention of readers, who he believed would be less open to his making the same points using Christian analogies.

Michael Novak gets my final nomination for the first ring of excellence. Trained in philosophy and theology, Novak initially favored left-wing politics, like many famous economists and other intellectuals coming to the fore in the sixties and seventies. Novak experienced a radical change in his thought, best illustrated in the following quote:

[I]t slowly dawned on me that...Max Weber had dimly seen that the original impulses of capitalism spring from Christianity.... These impulses had been systematically neglected by economists, who had abandoned religious and even philosophical considerations in order to model their discipline on the physical sciences. In this way, economists had lost sight of the spirit of capitalism, and neglected the human habits on which its survival depends. Simultaneously, nearly all theologians had become...adversarial toward capitalism and business...[and] looked down upon economic activities as vulgar and crass, if not evil. (Novak 1999)

It is as a writer on the moral underpinnings of market systems that Novak has made a strong impact on intellectual debate within the Catholic Church, among Christian

economists, and in the wider world, including the leaders of freedom movements in Eastern and Central Europe. In this regard, his most influential work has been *The Spirit of Democratic Capitalism* (Novak 1982).

Looking at contemporary Christian economists, those who have the greatest visibility in the profession include Geoffrey Brennan, Charles W. Calomiris, Ross Emmett, Christopher Barrett, Rebecca M. Blank, Herman Daly, John E. Anderson, Deirdre N. McCloskey, Mark Isaac, Kenneth G. Elzinga, Rodney Stark, Gerald W. Brock, Stephen Coate, A. M. C. Waterman, Earl L. Grinols, Thomas D. Jeitschko, J. David Richardson, P. J. Hill, Laurence Iannaccone, Robert H. Nelson, Charles K. Wilber, John Lunn, and James Gwartney.

A. M. C. Waterman (2014), whose training is in theology as well as economics, suggests two categories of “Christian economists,” which serve (better than aggregate citations) to highlight those who have engaged most vigorously in public conversation about faith and economics. His categories and the principal contributors are as follows:

1. Those who make a *strong* assertion that their faith “gives them privileged access to economic questions” are predominantly of the (Dutch) Reformed tradition. Their most rigorous thinker is Douglas Vickers, lately of the University of Massachusetts, Amherst. Bob Goudzwaard, Dutch (literally) economist and politician, is best known in Reformed circles, but for his commentary, not technical economic work. The centers of Dutch Reformed thinking are at Calvin College in Grand Rapids, Michigan and the Institute for Christian Studies in Toronto.
2. Those who make a *weak* assertion that the Christian faith can offer important contributions to public policy formulation and evaluation are predominantly Catholic economists,<sup>4</sup> including Dan Finn, Fr. Albino Barrera, Andrew Yuengert, and Stefano Zamagni (the latter serves on a panel of advisors to the Curia on economic matters). I would add to this list Victor Claar, my colleague, who speaks widely and writes as a Protestant from within the group making what Waterman calls a “weak” assertion (I would not use that term myself, but understand why Waterman does). Claar and others in this group seek to show how Christian faith/teaching may shed helpful light on certain economic policy issues, even under a secular regime. They tend to believe that

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4. Waterman (2011) reviewed Dan Finn’s 2010 collection of writings on Roman Catholic social thought, *The True Wealth of Nations: Catholic Social Thought and Economic Life*. In his review, Waterman does an excellent job of summarizing and criticizing Catholic social thought.

the nature of human beings requires the exercise both of reason, including the social and natural sciences, and of moral judgment when designing and implementing economic policy.

Waterman (2014) points out that very few Christian economists have theological and/or philosophical training. Those with this background who have contributed significantly to the dialogue between faith and economics include Fr. Albino Barrera, Mary Hirschfeld, Paul Oslington, and the late Paul Heyne.

At this point, it is important to recall that only a minority of economists of faith choose to write and speak publicly about connections between their faith and the discipline. I was reminded of this in correspondence with Eric Rasmusen (2014). He mentioned several professional economists whom he knows to be religious (as reflected in their participation in a worship community or in conversation), about whom I could find little to nothing regarding their faith. They include Nobel recipient Robert J. Shiller, Maureen O'Hara, and Mark Ramseyer. I suspect that a few of the "Christian economists" mentioned above have a professional interest in religion but are not believers. I am happy to leave that distinction to God.

We have come to the point of naming outstanding Jewish economists. Just as in the case of economists who are Christian or Muslim, many Jews in the profession do not choose to explore connections between Judaism and economics. Furthermore, the overwhelming majority of Jewish economists are not very religious. In correspondence Alan Blinder (2014) wrote to me, "Virtually all the Jewish economists I know, and I know a ton, are not very religious." To the top of anyone's list comes Nobel Prize winner Robert Aumann. I mentioned earlier a talk Aumann gave on "Judaism and Economics" in which he traces connections between Talmudic understanding of economic principles and modern principles. In other places, he has shown how game theory throws light on behaviors that reflect religious norms (a type of "rule rationality"). Furthermore, he describes the coherence of various perspectives—scientific and religious—on the same phenomenon:

Religion places a lot of emphasis on coliving with your fellow man. A large part of religion is, be nice to other people. We can understand this in the religious context for what it is and we can understand it scientifically in the sense of repeated games... , and we can understand it from the evolutionary viewpoint. These are different ways of understanding the phenomenon; there is no contradiction there. Fully rational players could be deeply religious; religion reflects other drives. (Aumann 2005, 702)

Religion, at least my religion, is a sort of force, a way of making a commitment to conduct yourself in a certain way, which is good for the individual and good for society. (Aumann 2005, 705)

In an effort to identify other outstanding economists who are religious Jews who have contributed to dialogue about religion and economics, I wrote to several of my former professors: Orley Ashenfelter, Alan Blinder, and Will Baumol. They all responded graciously, but were not able to help with my specific request. The task seemed worthy of one more effort, so I contacted Ephraim Kleiman, one of the contributors to *The Oxford Handbook of Judaism and Economics*, which I highly recommend. His response helped me draw my search to a close. He wrote, “For your purpose, you should be interested in those Jews who had a religious upbringing, which meant learning the rules of the said orthopraxis [as opposed to orthodoxy].” This, he says, would apply to virtually all Jewish males up to the last quarter of the nineteenth century. “I would suggest that most [modern Jewish writers] related to whatever religious training they received as something completely separate from their secular pursuits. Can you find any connection between the Keynesian multiplier and the fact that its developer, Richard Kahn, had been for most of his life an Observant, if not even Ultra-Orthodox Jew?” Kleiman offered that Robert Aumann and Aaron Levine (editor—now deceased—of *The Oxford Handbook of Judaism and Economics*) are “outstanding example[s] of the connection you are looking for” (Kleiman 2014).

One outstanding statistic about Jewish economists is that they represent some two-fifths of all those who have won the Nobel Prize in economics. Robert Aumann is perhaps the only one among them, I believe, to have thought long and deeply about connections between the field of economics and Judaism. I for one am grateful.

Before concluding our pursuit of outstanding religious Jewish economists who connect faith to their discipline, I recommend that interested readers take a look at work being done by the founders of the Center for Judaism and Economics, Robert and Corinne Sauer, and by Meir Tamari, former Chief Economist in the Office of the Governor of the Bank of Israel.

## **And then there was light— however disguised it may be**

It has proven to be a fascinating task to uncover a wide variety of organizations that facilitate conversations and research by religious economists. In the process, one encounters a spectrum of their convictions about whether



the study of economics can or should reflect one's lived religious faith, from 'no, never' to 'yes indeed,' including 'maybe.' I suspect that papers in this symposium will deal with the same murky questions: how to define a religious person (belief, attendance, ethical life); whether religion and science (in this case, economics) speak the same language; and what benefit there is to having economists occasionally put on a yarmulke, cross, or crescent.

It seems fitting to conclude with a special dedication: Dag Hammarskjöld (1905–1961), posthumous winner of the Nobel Peace Prize, was first an economist, long before being tapped as Secretary General of the United Nations. As an economist, he held posts in the Swedish Central Bank and the Finance Ministry; oversaw Sweden's contributions to the Marshall Plan; and helped start the OECD. He also thought deeply. If I had to name one work by a Christian economist that deserves great attention, even more than it has received, it would be Hammarskjöld's *Markings* (1964). Our world still needs his example and his quiet words.

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## About the Author



**Robin Klay** is Professor Emerita of Economics at Hope College. She continues to speak and write, especially about how the Christian faith may inform economic policy and decisionmaking by individuals, and about how knowledge of economics can help people of faith to understand and contribute to better communities and policies. Her email address is [klay@hope.edu](mailto:klay@hope.edu).

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# From an Individual to a Person: What Economics Can Learn from Theology About Human Beings

Pavel Chalupníček<sup>1</sup>

[LINK TO ABSTRACT](#)

It seems to me that the dominant narrative of mainstream economics in the past few decades has been one of conquest. If economists engaged with ‘foreigners’ from other fields, it was usually only because they wanted to colonize them. After all, economics may quite well be the last social science where the word *imperialism* is treated with affection. George Stigler endorsed the field as “an imperial science” that had “been aggressive in addressing central problems in a considerable number of neighboring social disciplines, and without any invitations,” offering an eschatological vision in which he praised “Heinrich Gossen, a high priest of the theory of utility-maximizing behavior” and heralded “the spread of the economists’ theory of behavior to the entire domain of the social sciences” (Stigler 1984, 311-313). Similarly, Gary Becker (1997/1993, 52) argued that “The rational choice model provides the most promising basis presently available for a unified approach to the analysis of the social world by scholars from different social sciences.”

Yet behind this imperialistic rhetoric there has also been a growing feeling of frustration: despite all the battles, economists’ rational proposals, chiseled to perfection, are often ignored. What’s worse, the very methodological foundations of economic science seem to be crumbling as it spreads over an ever growing territory—just like in the case of the (temporarily) eternal imperial Rome (Cullenberg, Amariglio, and Ruccio 2001). Today, the paths to truths seem to be

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1. Jan Evangelista Purkyně University, 400 11 Ústí nad Labem, Czech Republic. I would like to thank Niclas Berggren, Marek Hudík, and Pavel Kuchař for their comments.

winding and numerous, and some economists are finally willing to admit that unrealistic assumptions are likely to lead to unrealistic, and irrelevant, worlds.<sup>2</sup>

The core of the trouble with mainstream economics is, I believe, its vision of a utility maximizing human being—the infamous Max U (McCloskey 2010, 297; Lipka 2013). How can we overcome the flatness of the Beckerian-Stiglerian framework? It will perhaps sound daring to economists who have pride in the practicality of their science when I suggest that the place to ask for help is—take a deep breath—theology.

Theologians too have been struggling with their own versions of reductionist anthropology. One such struggle was against a centuries-long tradition of Catholic moral theology, a tradition that limited complex ethical problems to casuistic ethics, represented by catalogues of various sinful acts one should not commit (Pinckaers 2003, ch. IV).<sup>3</sup> The casuistic approach to ethics, and its underlying reductionist anthropology, was in the first decades of the 20th century challenged by a philosophical-theological<sup>4</sup> approach called “personalism” (Bengtsson 2006; De Tavernier 2009; Williams and Bengtsson 2014). Over the years that followed, the inclusion of personalist perspectives in Catholic moral theology led to fundamental shifts in Catholic ethics.<sup>5</sup> Although the fields of economics and moral theology seem quite distant at first sight today, they both deal with human action in a social context. Thus a less flat anthropology could lead to analogous shifts in economics as well.<sup>6</sup>

Let us start with the key concept of personalism: the person. Economists are more accustomed to thinking about an individual. Roland Breuer (1999) distinguishes the two concepts. Both a person and an individual share a notion of a

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2. Although even these unrealistic or fictitious worlds of storytellers can have some value, the dark side is that it seems to leave economists confused which of the stories they tell is best for real-world policymaking (McCloskey 1990).

3. One could perhaps draw some parallels between the approach of the authors of such catalogues, which were concerned only with isolated acts and not with one’s context or motives, and the Beckerian-Stiglerian approach that focuses on isolated, context-free choices and disregards motives or preferences.

4. Bengtsson (2006, 29) notes that it is difficult to draw a line between philosophy and theology in case of personalist thinkers, as many of them are engaged in both fields.

5. Weaver (2011, 31) characterizes this shift as follows: “Catholic ethics generally no longer centers on the analysis of discrete right and wrong actions to get at the reality of sin; rather, it centers on the person and her relations to God, neighbor, self, and world.”

6. Some writers have sought to overcome the individualism neoclassical economics with personalism, including O’Boyle (2007). I agree with O’Boyle that the anthropology used by neoclassical economics is not an adequate image of a human being, but the root of my argument differs from his. He seems to say that this anthropology may have worked in the time of Adam Smith, but it does not anymore mainly because of recent development of communication technologies. On the other hand, I would argue that the anthropology of Adam Smith’s *Theory of Moral Sentiments* seems to be much richer than the reductive neoclassical individual, which is a concept born most likely in the late 19th century. Note that Persky (1995) is able to discuss the emergence of the neoclassical individual without any reference to the works of Smith.

self, but they differ in how the self is perceived and how it relates to consciousness—ability to reflect on things. The contrast is best illuminated by speaking of the extreme case for each concept. For an *individual*, the self is always distinct and detached from its reflections, while in the case of a *person* the self and reflection are joined. An *individual* presupposes a kind of independence from the world: any connection to motivations for one's action can be freely disposed of. A *person*, on the other hand, is so embedded in his/her social environment that such disposal or detachment is impossible: the self of a person itself is constituted by its relationality.

To illustrate this difference, think of a utility function of an individual, Max U. Anything that matters to Max U will be in the function: holidays overseas, his mother's utility, God, and a new iPhone. The flatness of Max U creates an illusion that all these things are commensurable and interchangeable. It creates an impression that one can get rid of the fundamental relationships that are constitutive for one's identity (to God, to one's family etc.) with the ease of choosing between going on holidays or buying a new iPhone (see Jerolmack and Porpora 2004). But a person treats these things at different levels. Persons *use* moral sentiments to work through decisions; utility functions don't. Persons have history; utility functions don't.

Personhood is a relational and therefore a multidimensional concept. Various streams of personalism differ in how many dimensions they explore and what relative weight they assign them. For example, the so-called 'Leuven personalism,' developed at the Catholic University of Leuven, Belgium, by theologians Louis Janssens and Joseph Selling, recognizes eight such dimensions or spheres of relations, which are valid for any human being, or universal. *Person*, then, can be defined as "a focal point where all these dimensions converge," but in which none of the dimensions becomes dominant over others (Selling 1998, 98).

Following are capsule descriptions of the eight dimensions:<sup>7</sup>

1. *Relation to the "whole of reality,"* a relation to the transcendent, which for theists will be a relation to God, for humanists to humanity and for others perhaps to what the German-American theologian Paul Tillich calls "the ultimate concern," "a meaning which gives meaning to all meanings" (Tillich 2000/1952, 47).
2. *Relation to the material world,* from which we can't be separated as long as we stand on the ground and breathe the air around us.

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7. For these descriptions I rely mainly on Selling's reformulation of Janssens's original contribution (Janssens 1999; Selling 1998), or what Selling calls the "human person adequately considered." I prefer this approach for its clarity, thoroughness and its openness to non-theistic interpretations. On Janssens, see Burggraeve (2002) or Christie (1990).

3. *Relation to culture*, as everyone has been born to a certain society with a certain culture and language, “the basic tool of relationality itself” (Selling 1998, 101).
4. *Relation to historicity*, as everyone lives in time: in the present which derives meaning from the past and is oriented toward the future.
5. *Relations to other persons*, as there is no person without parents (even if these are deceased or unknown). Without relating to other persons one can’t realize one’s own uniqueness (or ‘individuality’).
6. *Relation to one’s own subjectivity*, one’s self, aware of its own existence and ability to reflect upon it (the ability is usually called ‘consciousness’).
7. *Relation to one’s own corporeality*, which includes not only one’s body but also one’s mind, overcoming any metaphysical dualism, since body and mind cannot be separated.
8. *Relation to one’s uniqueness*, which follows from the fact that for every person the content of each of these dimensions will be different. Although people can be compared using different criteria, this uniqueness gives grounds for treating every person with dignity.

Personalism is a broad concept and so is ‘economic personalism.’ The first representative of an approach to economic personalism is Luk Bouckaert from the Catholic University of Leuven. According to Bouckaert (1999, 20-21), there are several economists who “have attempted to bridge the gulf between the personalist view of man and economic rationality,” including François Perroux, Kenneth Boulding, and Amartya Sen. Although they may not have used the term “personalism,” Bouckaert argues that they implicitly worked within a framework of “economic personalism,” which for him means “normative economics that does not simply reconstruct the problem of efficient allocation as an individual or social problem of utility, but in the first instance as a problem of human dignity and social justice.” Moreover, he suggests, the distinction between “positive” and “normative” does not make sense from a personalist viewpoint, because “to reduce the problem of human choice to a problem of subjective utility is in itself a far-reaching normative standpoint.” In other words, standard neoclassical models (and their underlying anthropology) also have normative assumptions and implications.<sup>8</sup>

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8. An example used by Bouckaert (1999, 23) is someone who is so intellectually malnourished that he/she does not even recognize his/her need for education. In such a case the only thing a neoclassical economist can say is that such a person is in a state of optimum, because the current state of affairs is according to his/her preferences. Bouckaert does not find this sufficient.

The second representative is authors associated with the Center for Economic Personalism of the Acton Institute for the Study of Religion and Liberty in Grand Rapids, Michigan. They define economic personalism as a combination of personalism with free-market economics (Zuñiga 2001). This version of personalism is linked by Gregory M. A. Gronbacher (1998) to the Polish personalist tradition, which dominates today's official moral theology of the Roman Catholic Church and is strongly associated with Pope John Paul II.<sup>9</sup> Economic personalism is understood by this group of authors as a “nuanced synthesis of free-market economic science and the science of moral theology grounded in the personalist anthropology” (Gronbacher 1998, 3). This “personalist anthropology” seems, however, to boil down to a rather vague “personalist maxim—each person ought to be affirmed for his or her own sake” (ibid., 10). One criticism of this approach notes that it seems to be internally contradictory in claiming that it wants to stay above left-right political divides and yet explicitly linking itself with “free-market economics” (see Gronbacher 1999, 247); a second criticism is that it pushes the interpretation of the official Catholic social teaching too far in the pro-market end of the political spectrum (Finn 2000; 2003).

From this brief sketch, it is clear that economic personalism is far from being a ready-to-use approach. Still, I think that it can be helpful for matters where traditional Max U models seem unsatisfactory or even misleading. Economic personalism may be more loose, vague, and indeterminate than an average neoclassical model. But maybe that is a price worth paying to make our view of the problems of this world more human.

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## About the Author



**Pavel Chalupníček** is a researcher at Faculty of Social and Economic Studies, J. E. Purkyně University in Ústí nad Labem, Czech Republic, and a student at Faculty of Theology and Religious Studies, Catholic University of Leuven, Belgium. His research interests include economics of religion, theology of economics, and social economics, especially the relevance of altruism and social capital for economic behavior. His email address is [pavel.chalupnicek@seznam.cz](mailto:pavel.chalupnicek@seznam.cz).

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# Joyful Economics

Victor V. Claar<sup>1</sup>

[LINK TO ABSTRACT](#)

I discovered economics quite by accident—though my Reformed Protestant friends might call my discovery of economics “providential.” Ever since that discovery, my spiritual life and my professional work as an economist have grown increasingly intertwined.

## Looking back upon my journey

As a young person my life was quite religious. My father served throughout his working life as a pastor in the United Methodist Church, and he met my mother while they were students at Marion College (now Indiana Wesleyan University), a Christian liberal-arts institution in Marion, Indiana. Though I grew up in a ‘mainline’ denomination, my parents have always lamented what they perceive to be an ongoing drift of the denomination away from deep evangelical traditions.

My use of the word *evangelical* requires some clarification, since in modern parlance the word has evolved to connote something quite different from its earlier meaning. Though *evangelical* is now sometimes used as a kinder, gentler substitute for the more pejorative *fundamentalist* when referring to a particular subset of Protestants, formerly it was understood as referring simply to one who takes quite seriously the narrative of Jesus Christ’s life and work as found in the four accounts written by Matthew, Mark, Luke, and John—collectively, the *evangel*, more commonly the gospels. Under this definition of evangelical, I view my parents as authentic evangelicals, and I would also describe myself as evangelical in the sense that I yearn to reflect the teachings of the gospels through my life and work—

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1. Henderson State University, Arkadelphia, AR 71999.

including my economics teaching and scholarship. Do evangelicals like me think they are perfect? Hardly. Instead my impression is that most evangelicals, in the sense that I use the term here, are quite humble regarding their past (and present) failings, while hopeful of the persons they are in the process of becoming. We evangelicals, then, view ourselves as mere unfinished goods at various stages along the production process. I am reminded of an evangelical catchphrase from my childhood: “BE PATIENT: God isn’t finished with me yet!”

My parents were (and still are!) faithful Christians, as well as lovers of the life of the mind. They have always been followers of current events, voracious readers, and lifelong learners. When the time arrived for our family to consider where I might spend my undergraduate years, we focused upon institutions that took seriously both liberal learning and the Christian faith, and that also integrated the two throughout. Our search led me to Houghton College, a lovely undergraduate institution located along the Genesee River in rural western New York state.

At the beginning of my studies I declared my major in mathematics, though I soon discovered that I lacked passion for mathematics—at least on its own. Though I could succeed in the classes, I found myself quite unmotivated to pursue any career that might lie at the end of a mathematics degree. Near the close of my sophomore year, then, I changed my major to business administration: a degree program that, if I began immediately, I could complete by the end of my eighth semester and not need to financially burden my dear parents beyond that. Of course, majoring in business got me to take some economics classes. And I fell in love with the dismal science. Because Houghton was a small college with no economics major, I took most of my classes from Edward J. Willett—the only economist among the faculty. Although Professor Willett was deeply Keynesian in his views, which I would view as a ‘negative’ if I were his student today, he nevertheless inspired me to pursue a career in economics.

In economics I discovered the passion I found lacking in mathematics alone. And as I studied economics I came to view it as the science of good stewardship. As a Christian, this was a thrilling discovery. Christians are called to be good stewards of God’s rich creation. The word *steward*’s origins lie in two old English words: *stig* (a house or part of one) and *weard* (the same root as the word *warden*, a manager or keeper). Christians, then, have major roles to play as they interact with the created order: We are called to be faithful managers throughout God’s entire “House.” The created order ultimately belongs to him, yet we are his managers of it.

I became especially intrigued by the usefulness of economic thinking in addressing issues of ongoing interest to the Christian church: elevating the poor, tending to the planet, serving others through our work, and raising our children. Even in the first years of my study of economics, it seemed obvious to me that economics had powerful things to say that would be immensely useful to Christians

as faithful caretakers of creation. This early conclusion—that economics has a practical usefulness to Christians—served decades later as the primary motivation behind the book I wrote with Robin Klay, *Economics in Christian Perspective: Theory, Policy and Life Choices* (Claar and Klay 2007). Robin and I were convinced that evangelical Christians needed an accessible primer in economic thinking, and Robin convinced me that she and I were the ones to write it. Robin can be *very* persuasive.

Because Houghton offered no major in economics, I took all of the economics classes available to me and—ironically—studied a fifth year at Houghton in order to complete the major requirements in math that I’d begun at the onset. Eventually I earned my doctorate in economics at West Virginia University.

During my doctoral studies I became aware of the Association of Christian Economists (ACE), and I joined its ranks. As a member of ACE I received its peer-reviewed journal, *Faith & Economics* (formerly the *ACE Bulletin*), and read with great interest the journal contributions and biographical updates of scholars such as Todd Steen, John Lunn, and—of course—my dear friend Robin. To a person they appeared to me to be clear-headed economists who were also deep believers. In retrospect I see their ongoing scholarly contributions in the intersection of faith and economics as work carried out in the rich tradition of Scholastics such as St. Thomas Aquinas as well as the schoolmen of Salamanca, all of whom view the market order as a valuable portion of God’s providence.

During this period I was also heavily influenced by Donald Hay’s book *Economics Today: A Christian Critique* (1989). In particular I was impressed by Hay’s articulation of eight “biblical principles for economic life,” which Robin and I condense in the opening chapter of our own *Economics in Christian Perspective*. These include:

- “Humans are given the calling and responsibility of stewardship,”
- “Humans are created to enjoy creation and to show gratitude for it,”
- “Human beings have an obligation to work,” and
- “Society must make provision for the poor” (Claar and Klay 2007, 22-23).

Following graduation I moved to West Michigan to join the faculty at Hope College where I was blessed to count Professors Steen, Lunn, and Klay among my departmental colleagues and eventual lifelong friends. In retrospect I have no doubt that their considerable thinking and writing on faith and economics, and their deep passion for it as Christians, influenced my own career. Through them, and also through the networking opportunities afforded by ACE membership, I have also had the opportunity to meet and get to know many others who had a similar impact on my journey. These include Ken Elzinga, Kurt Schaefer, and Andy

Yuengert—to name but three—all of whom made visits to Hope’s campus during my years there.

## What might Christian economists contribute?

Hay (2001) outlines three specific avenues through which Christian economists might make their own unique contributions to economic thought. One avenue—and in Hay’s view the least promising—is to create entirely new modes of thinking about economics that are built upon foundations of sound Christian principles. This avenue of influence, best exemplified by economists historically connected to Calvin College in Grand Rapids, Michigan, depicts modern economics as deeply flawed because its roots are ideologically and theologically rotten. Economists working in this “Reformed” school of economic thought include John Tiemstra. They argue that institutions should reflect biblical norms for human interaction, and they place a particular emphasis upon long-term covenantal relationships rather than occasional opportunities for mutually beneficial gains. Hay sees little value in this project. One may lament the self-interested nature of economic agents, but such lamentations do not constitute a sufficient argument to dismiss altogether our accumulated body of economic knowledge (Hay 2001, 175-176).

A second avenue of potential influence is through what Hay calls the “subversive method.” According to Hay, there is important work for the Christian economist to do, and the economist’s faith will drive his or her research program toward topics that will be of particular interest to Christians working in the world. For example, if Christians in fact have a biblical mandate to elevate the poor and to care for the planet, then Christian economists can help steer their own research—and that of their non-Christian peers—in directions that lead ultimately to more effective stewardship.

Finally, Hay outlines what he calls the “critical method.” Here the Christian agenda is made explicit, and without apology. Much of the research published in *Faith & Economics* exemplifies this approach; in a typical issue of *Faith & Economics*, hard-headed economists (to borrow Alan Blinder’s phrase) use their economics toolkits to tackle questions and issues that are explicitly Christian, and they address themselves to a largely Christian readership.

To these three parts that Hay suggests might be played by the Christian economist, I would add two other roles. First, Christian economists simply must communicate to the caring public the usefulness of the economic way of thinking. They also must convey the existing evidence regarding what works—and what does not—in addressing the world’s deepest hurts and needs. Far too few Chris-

tians understand much economics, and consequently their policy activism on behalf of the Christian church is badly misguided. Jordan Ballor (2010) gives a concise contemporary overview of this phenomenon.

I have spent the last few years communicating the best available economic wisdom to caring Christians. *Economics in Christian Perspective* is a prime example. Another example is *Fair Trade? Its Prospects as a Poverty Solution* (Claar 2010), a short book commissioned by the Acton Institute. In the book I unpack—for well-intended believers—the story of fair trade as related to coffee. In preparing the manuscript I read literally everything I could find in EconLit about fair trade, and then wove all of the available research into a narrative that could be read by anyone curious about it.

But this role requires great care. The ‘unseen’ and the ‘invisible’ may be powerful and familiar in the circles in which I normally hang out, but they can be a tough sell to a lay audience—especially if that audience already has a heavy emotional, financial, or institutional investment in doing something that we economists might see as inefficient (or worse). We economists—Christian or otherwise—must thus tread lightly when communicating with others on potentially touchy or politically divisive topics. I learned this lesson while editing *Economics in Christian Perspective* prior to its initial release. Before the eventual publication of the book, our publisher had sent the entire manuscript to two anonymous readers who both provided substantial helpful feedback. We later learned that the reviewers had been Tom Head (at George Fox University) and Stephen L. S. Smith (at Gordon College), and both of them strongly cautioned that too much of the book (ahem, mostly my own chapters) sounded like a libertarian rant. I remember vividly a comment from Tom Head: “In class I still use some remainder copies of Robin Klay’s (1986) *Counting the Cost*, and I’d recommend that book to someone *way* before I’d recommend the present manuscript.” Tom’s words smarted considerably at the time, but his criticism was spot on.

I once heard Caroline J. Simon, a former colleague and now provost at Whitworth College, say that when it comes to the task of writing one must always bear in mind that “no one owes you a read.” Too often economists like me who see the tremendous power of the price system to elevate humanity can come off as abrupt, dismissive, or—worst of all—uncaring, whether in writing, speaking, or even in informal conversation with one’s fellowship group at church. If someone believes they have been working diligently for a cause they care about deeply, you will never change his mind by telling him that his efforts have been ineffective. But because he does care, you have an opportunity to share economic wisdom. Don’t blow it.

I kept the words of Tom Head and Carol Simon firmly in mind while reworking the tone of several passages of *Economics in Christian Perspective* prior to its

release, and also while writing *Fair Trade?*. There are thousands of caring people who think they have been saving the world by purchasing fair-trade coffee and other commodities. If one of those caring people is attracted to a book you are writing by its engaging cover and its intriguing subject matter, but puts it down after ten pages because she applies a certain stereotype to you, then you have accomplished nothing. You have been written off, and it matters not how stunningly brilliant your analysis is: She will never read it, and you have lost an opportunity to share the economic way of thinking.

This is one of the reasons that the work of the Acton Institute has become so significant. The Acton Institute has always worked very diligently to, in their words, “connect good intentions with sound economics.”<sup>2</sup> Historically the Acton Institute has also been highly ecumenical, working to connect with believers and nonbelievers alike. They understand that both the message and the tone of an argument matter, because without serious engagement there will be few victories in winning others to the miraculous usefulness of the price system and the market order.

A final avenue through which the Christian economist might inform scholarly discourse to the benefit of many audiences is to undergird hard-headed economic research and writing with deep theological underpinnings. There are several books on the market that have attempted to give economists and theologians a space in which to engage in discourse on both economics and economic issues. Examples include Andrew Britton and Peter Sedgwick (2003) and Doug Bandow and David Schindler (2003). Yet in these two cases, and in others as well, the resulting product is not a cohesive synthesis of economic and theological thinking and tradition. Instead what can sometimes happen, as these two books illustrate, is that the theologians do a little talking, and then the economists do some talking. Even if the theologians and the economists happen to be writing from the same economic policy point of view, the theologians seldom know enough about basic economics to do it justice. And it is even less likely that an economist knows enough theology to meaningfully employ it in his research program.

For this reason, when I have a writing project in mind that has an obvious religious angle to it I seek out collaborators who better understand theology and the history of the Christian church. Ballor and Claar (2013) is a recent example; we tackle the deadly sin of envy from both theological and economic perspectives, making the argument that even though market outcomes lead to occasions for envy, attempts to use social democracy to eradicate envy are short-sighted in light of long-term goals of human flourishing. We argue further that the church and the family both have a significant role to play in forming human beings less tempted

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2. This phrase may have originated with DeYoung and Gilbert (2011, 186ff.)

to envy when others achieve good things. Jordan patiently tutored me in church teachings regarding envy.

## On utility, happiness, and joy

If modern economics suffers from an undue ‘flatness’, the main reason—at least in my opinion—is that it tends to treat a great variety of utility-influencing goods, services, and activities somewhat equivalently. Every utility function includes a vast array of arguments, and we multiply them together in the case of complementary goods, or we raise an argument to a high exponential power with a large coefficient in front of it if we want to suggest that something is *really* valuable to a particular consumer or household.

Don’t get me wrong: Economic modeling is a powerful tool that helps make arguments more explicit and precise. But I would contend that some forms of utility-enhancement simply are not comparable to each other. Or to put it more simply, there is a meaningful distinction between mere happiness and rich, deep, abiding joy. A beautiful day makes me happy. So does a nice Dave Brubeck tune or a lovely glass of beer on a Friday afternoon. Combine the day, Brubeck, and the beer and I’m really happy, perhaps even content. But that contentment simply cannot be compared to, for example, the abundant joy that knowing Robin has given me and will continue to yield throughout my life. And I might be mistaken, but to me it seems like there is something much deeper in my friendship with Robin than merely a return on an investment in social capital that I am enjoying because of our friendship, our collaborations, and our shared faith. Thinking about my friend Robin right now, as I write, makes me experience gratitude and joy, and I miss seeing her. The birth of a child often brings joy, and so does a wedding day. In the gospel account written by Saint Luke, the angel tells the shepherds, “Fear not: for, behold, I bring you good tidings of great joy, which shall be to all people. For unto you is born this day in the city of David a Saviour, which is Christ the Lord” (Luke 2:10-11).

The late Paul Heyne has suggested that economic behavior cannot be reduced to utility maximization. He describes our economic activity as “purposeful;” we each have places in our lives we are trying to get to, and only we know best where we are going and how to most effectively proceed (Heyne 2008). I like this description, because it opens the door to all human pursuits, and all sorts of purposes—whether simple or profound.

Occasions that bring profound joy usually require moral experiences and personal investments far in advance of any measurable or even observable outcomes; they frequently require short-term choices that may seem perplexing to a



bystander who sees the decisionmaking environment through a different lens. I am reminded of the Austrian school's emphasis upon the intertemporal structure of capital in the Austrian view of the business cycle. Roger Garrison (2005) provides a helpful overview, emphasizing that significant long-term change is impossible unless entrepreneurs and their investors are free to invest in pursuits that may not pay off for decades, if at all.

In my view, then, people of faith are called to lives of high purpose, and in their pursuit of a good life they put off ephemeral happiness in order to invest in something that gives their lives focus and direction over a long time horizon, perhaps even a very long one. All of us do this to different degrees, whether pursuing doctorates in economics, starting (or not starting) our families, putting together a book proposal, beginning a fitness program, or dutifully turning up for ballroom dance classes with our life partners. We choose to do these things both when they are easy, and also when difficult, because we seek rewards that add up to a sum far greater than a high daily dose of happiness. We instead seek after deep, abiding joy. And surely economics has room enough for joy.

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## About the Author



**Victor V. Claar** is professor of economics at Henderson State University, a four-year public liberal arts university located in Arkadelphia, Arkansas. Prior to arriving at Henderson he served as associate professor at Hope College in Michigan. He is the author of *Economics in Christian Perspective: Theory, Policy and Life Choices* (with Robin Klay) and *Fair Trade? Its Prospects as a Poverty Solution*. He spent the 2006–07 academic year as a Fulbright Scholar, teaching graduate students and conducting research in the Republic of Armenia. He is a regular lecturer for the Acton Institute’s annual “Acton University.” His email address is [vclar@gmail.com](mailto:vclar@gmail.com).

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# Where There Is No Vision, Economists Will Perish

Charles M. A. Clark<sup>1</sup>

[LINK TO ABSTRACT](#)

*Where there is no vision, the people perish.*

—Proverbs 29:18

This special issue of *Econ Journal Watch* reflects that which is told of in the title of the book *The Crisis of Vision in Modern Economic Thought*, written by Robert Heilbroner and William Milberg nearly 20 years ago. When one compares the richness of the social and human analysis of Adam Smith, Karl Marx, John Stuart Mill, and even Alfred Marshall against the insubstantial techniques of contemporary neoclassical economics, it is easy to understand the current malaise. The great economists had a much broader understanding of human nature than currently used by mainstream economists. An excessively narrow view of the human person, I would argue, is the main reason that much current economic analysis does not ably treat the real economy. A turn towards religion, especially the Christian understanding of human nature, can open the door to a more useful economic analysis.

I shall limit my comments to the relationship between mainstream economic theory and Christianity. My argument is not that economists should turn to Christianity or the Church for an alternative economic theory or model. As John Paul II (1991, §43) often noted, the Church does not offer an alternative economic model. What it does offer is an alternative conception of the human person, and it is here that mainstream economics needs the most help. The view of human nature adopted by an economist is part of what Joseph Schumpeter (1954, 42) called the “vision,” the pre-analytical framework necessary before economic analysis is possible. This “vision” creates the meaning carried by terms like *human person* and

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1. St. John's University, Queens, NY 11439.

*society*, necessary for thinking about economic activity, but which are outside the scope of the economist's expertise. They are instead supplied by the higher disciplines of philosophy and theology.

In 2002 Judith Dean gave a conference keynote speech titled "No Compromise: The Christian Economist as Mainstream Scholar," in which she argued that there was no conflict between her Christian beliefs and the tools employed by economists, which I will take to mean neoclassical economic theory.<sup>2</sup> Her analysis, later published as a book chapter (Dean 2005), was a version of the positive-normative dichotomy neoclassical economists use to separate their 'positive' scientific work from their 'normative' role as policy advocates. According to Dean, the Christian economist's choice of research subjects should be informed by faith, but then the economist can use the tools of neoclassical economics to understand specific economic problems, much like a doctor diagnoses a disease. Later the Christian economist can switch hats again to advocate for policies that reflect Christian values, such as helping the poor. The approach would be perfectly reasonable if the tools of mainstream economics are 'value-free' and thus morally neutral. One would expect that St. Paul used the standard techniques of his day to make tents. Why shouldn't the contemporary economist use the standard techniques to do their work?

The essential problem with Dean's argument lies in the lack of validity in the positive-normative dichotomy. All of economics is 'normative,' and there is nothing meaningful that can be said in economics that is free of value judgments, i.e., that relies only on 'is' statements. Every term and concept in economic theory is a socially constructed term, and every economic 'reality' is a socially constructed phenomenon; within these constructions are layers of value judgments and thus the constructions are in no way morally neutral. The tools of neoclassical economics are based on a philosophical anthropology—the model of 'rational economic man.' Consider the mainstream approach to explaining poverty: it is to reduce all the causes of poverty to individual choices, because all neoclassical economic theory, following the tenets of methodological individualism, has to explain every economic outcome as the result of individual choices. Such a method flows directly from the judgment that it is sensible to view the human person as 'rational economic man.'<sup>3</sup>

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2. The education of the modern economist usually only teaches the tools economists use, and maybe a little of the theory behind the tools, but it almost never teaches the philosophical foundations upon which the theories have been constructed. Thus it is not surprising that many see the tools as 'neutral.'

3. This view of human nature was best summed up by Thorstein Veblen: "The hedonistic conception of man is that of a lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area, but leave him intact" (Veblen 1919, 73). For evidence of how Veblen's critique still stands, see Allais (1992, 242-246).

Because neoclassical economics adopts the ‘rational economic man’ model as its anthropology, it must exclude history, culture, politics, and religion, leaving only autonomous individuals with preferences and factor endowments searching for trading opportunities. To include historical and social context would require abandoning mathematical formalism and equilibrium as the core framework for understanding economic order (Clark 1992). Yet if our goal as economists is to explain human behavior, we need to include history, culture, politics, and religion so that we can understand the causes of preferences, exactly what we are forced to exclude. We seek to understand why factor endowments are so distributed, and how societies may create rules to allow peaceful trade. A useful understanding of poverty, and all economic activity and outcomes, requires including both individual and social factors.<sup>4</sup>

If you accept Francis Edgeworth’s claim that “The first principle of Economics is that every agent is actuated *only by self-interest*” (1967/1881, 16, italics added), as a neoclassical economist must, then you have to reject St. Paul, “Do nothing from selfish ambition or conceit, but in humility regard others as better than yourselves. Let each of you look not to your own interests, but to the interests of others” (Philippines 2:3-4). You also have to reject Adam Smith, who maintained that “How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it” (Smith 1976/1790, 9). Smith argued that each person has a moral compass, which, if properly developed, will teach us “the propriety of resigning the greatest interests of our own, for the yet greater interests of others, and the deformity of doing the smallest injury to another, in order to obtain the greatest benefit to ourselves” (ibid., 137).

While the practice of Christianity as a religion might allow considerable leeway, as we see with the “prosperity gospel” (Bowler 2013), Christian theology cannot accept a model for understanding human behavior that has been emptied of all humanity. The Christian economist can never accept utilitarianism as a psychology or as a moral philosophy—though for neoclassical economics and Jeremy Bentham, it is both. If neoclassical economics is right, then Christianity is a perfect example of what Bentham called “Systems which...deal in sounds instead of sense, in caprice instead of reason, in darkness instead of light” (1982/1823,

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4. One can see the other extreme in Marx’s analysis: “[T]he essence of man is no abstraction inherent in each single individual. In its reality it is the ensemble of the social relations” (Marx 1975/1888, 7). If humans are reduced to only the product of social structures, then every problem is reduced to changing social structures. In Catholic social thought both the individual and social forces are seen as active and necessary forces.

11). Luckily for Christians the evidence suggests that neoclassical economics is not right.

Neoclassical economics is in many ways a competing faith, built upon a teleology based on individual choice rather than union with God. Pope Francis has called this competing value system “the idolatry of money.”<sup>5</sup>

The current financial crisis can make us overlook the fact that it originated in a profound human crisis: the denial of the primacy of the human person! We have created new idols. The worship of the ancient golden calf (cf. *Ex* 32:1-35) has returned in a new and ruthless guise in the idolatry of money and the dictatorship of an impersonal economy lacking a truly human purpose. The worldwide crisis affecting finance and the economy lays bare their imbalances and, above all, their lack of real concern for human beings; man is reduced to one of his needs alone: consumption. (Francis 2013, §55)

Every economic theory must adopt some understanding of human nature. But economic theory cannot *provide* an understanding of human nature. The economist who is serious about understanding economic actions must turn to the other social sciences so that he or she can better understand the role that culture, politics, society, and religion play in shaping human actions, and that these factors, and not relative prices, are what bring order and coherence to the economic life of a community.

To get to the human element of human nature we must in the end turn to the higher discipline of theology. John Henry Newman (1801–1890) criticized the great narrowness of economics; he noted how economists had separated themselves from the other social sciences as well as from philosophy and theology. Newman argued that the insights of economists always have to be seen as very limited, placed in the context of the other sciences, and evaluated by the higher science of philosophy and informed by theology. His assessment of economists is eerily prophetic: “I only say that, though they speak truth, they do not speak the whole truth; that they speak a narrow truth, and think it a broad truth; that their deductions must be compared with other truths, which are acknowledged to be truths, in order to verify, complete, and correct them. They say what is true, *exceptis excipiendis*; ... true, but not the measure of all things; true, but if thus inordinately, extravagantly, ruinously carried out, in spite of other sciences, in spite of Theology, sure to become but a great bubble, and to burst” (Newman 1859,

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5. Money embodies unlimited choice, with the consumer as the final and only arbiter of good and bad choice. Christian theology would reject the proposition that the individual is the final judge of what is right and wrong.

128). It is hard to find a more accurate description of the recent financial crisis, with the efficient markets hypothesis, which is based on the ‘rational economic man’ model, playing the role of a theory that was presented as the broad truth, disregarding other truths. Arguably such a disregarded truth is the notion that the more you deregulate banks and financial markets, the more unstable they become; this disregard encouraged politicians to deregulate financial markets and regulators to ignore their job descriptions. Coupled with the ‘self-interest’ ethics of neoclassical economics, the efficient markets hypothesis provided ethical cover for fraudsters who turned the large financial institutions into criminal enterprises, creating a disaster we have yet to recover from.

Christian anthropology starts with the *imago dei*, the Biblical claim that all humans are not only created by God, but are created in God’s image and likeness (Gen. 1:26-28). The significance of *imago dei* is as a source for what distinguishes humans from the rest of creation. It is from here that each human gets their inherent dignity, that which gives meaning to the phrase “all...are created equal.” Human dignity is a gift which no one earns or merits, and it is the same for king and subject, unborn child and tenured professor. It is the source of our rights and responsibilities. It is not something that can be taken away by governments or market forces. Our dignity comes from both our origins and our destination, as St. Augustine confessed: “You have made us for yourself, and our heart is restless until it rests in you” (I.i.1). It is not the conclusion of observation or scientific measurement, as Aristotle shows in his defense of slavery (*Politics*, I.4-7). By defining human nature theologically we can confidently state that all people are equal, for our equality comes from our equal relationship with God.

Along with dignity, the *imago dei* emphasizes humans’ moral responsibility and social nature. Our social nature—participating in community, working with others—is how humans grow and develop, and how they achieve happiness. Participating in markets is one example of working with others, but there are many other examples which are important for the economic life of the individual and society which necessarily take place outside of market exchange. Viewing humans as only autonomous self-seeking individuals gives a distorted view of the role that prudential judgment plays in self-interested economic actions that respect the dignity of both traders. As John Paul II has argued, the insight that *imago dei* gives to Catholic social thought is that the good of the individual and the common good are not in conflict with each other:

Every person, created in the image and likeness of God (cf. *Gen* 1:26-28) and therefore radically oriented towards the Creator, is constantly in relationship with those possessed of the same dignity. To promote the good of the individual is thus to serve the common good,

which is the point where rights and duties converge and reinforce one another. (John Paul II 1999)

Benedict XVI states, “*The economy needs ethics in order to function correctly*—not any ethics whatsoever, but an ethics which is people-centered” (2009, §45). A people-centered economic ethics is one that looks at people as they are: economic, social, political and spiritual beings. At the temporal level, a broader view of the human person will lead to an economic theory that allows us to understand the real economy, and hopefully to nudge it in the direction of the common good. It will not have the mathematical precision of current neoclassical models, but the high costs of exalting precise error over messy truth is what has led so many to reexamine the philosophical foundations of economic theory. As Heilbroner (1979, 198) once famously quipped: “the prestige accorded to mathematics in economics has given it rigor, but, alas, also mortis.”

Catholic social thought has developed a list of principles that flow from a deeper understanding of the human person, the principles of: the common good; solidarity; subsidiarity; the universal destination of material goods; the option for the poor; the rights of workers; and stewardship of the environment.<sup>6</sup> These principles are not an alternative economic theory or system, and they do not recommend or condemn traditional, command, or market solutions to the economic problem. Instead they inform how social provisioning can be carried out in a way that protects human dignity and promotes the common good. They help us move towards the just economic relationships that are written in our hearts (Rom. 2:15). Diminishing human dignity is the one compromise that the Christian economist cannot make.

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6. For a discussion on how these principles can inform how we understand the economy, see Clark (2008).



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## About the Author



**Charles M. A. Clark** is Senior Fellow of the Vincentian Center for Church and Society and Professor of Economics at St. John's University. He earned a B.A. from Fordham University and Ph.D. from the New School for Social Research, writing his dissertation under the supervision of Robert Heilbroner. Dr. Clark has published widely on economics and Catholic social thought, the history of economic thought, inequality, and poverty. His email address is [clarkc@stjohns.edu](mailto:clarkc@stjohns.edu).

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# Economics Is Not All of Life

Ross B. Emmett<sup>1</sup>

[LINK TO ABSTRACT](#)

Thirty years ago, I took up a task that many starting professors of economics have to fulfill: I was assigned to teach first-year economics. I had taught the course before as a graduate student, but now I had the opportunity to choose the textbook I would use. I chose the newly released text by Edmund Phelps (1985) titled *Political Economy: An Introductory Text*. My reason for this unusual choice was simple: Phelps's book came close to addressing the questions about economics I was interested in; a fact that reflected my own unusual relationship to the discipline I had chosen. My background was not in economics, but in intellectual history, theology, philosophy, and even business. I entered the economics discipline as I was exiting the evangelicalism I had grown up in. Thus, my education as an economist shared time with my education in the rich tradition of the Anglican Communion that I entered then, and I have remained in since.

Right from the start, Phelps informed the student that the questions to be addressed were bigger than 'individual choice in the face of scarcity,' the 'ordinary business of life,' or whatever other definition of economics one usually encounters in a textbook. "Political economy," he wrote, "is ultimately the study of the effects of various mechanisms, and systems of mechanisms, used (or usable) by societies to operate their social economy" (1985, 27). Not only was our study to be about institutional design and choice, but the individuals in these societies were, Phelps told us, more than efficiency optimizers. They were also people who were in the process of choosing their own values; individuals who, as Frank Knight once said, had an interest not only in satisfying their existing wants or avoiding risks, but also seeking to find more and better wants (Knight 1999a/1923). Thus, not only did Phelps make social and political decisionmaking a focus of his disciplinary

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1. James Madison College, Michigan State University, East Lansing, MI 48825.

introduction alongside economic choice, but he also cast the inquiry as inevitably ‘normative.’

In the marketplace, Phelps’s book flopped. I was one of probably only a handful of adopters, and my experiment using it lasted only one year. I realized quickly that, despite my own enthusiasm, the students were uneasy with my love of the ‘big questions,’ which to them implied vague answers to test questions. But when I recently read Phelps’s new book, *Human Flourishing* (2013)—a book about how innovation has enriched our lives and the values needed for an innovative society—all those old themes came back and the book felt quite familiar to me. I had not remembered innovation as being a big theme of the textbook (indeed, the word only appeared once in the index, pointing to a single paragraph on the topic), but the way Phelps wove normative, theoretical, and empirical studies together made me realize how much I had liked his earlier text. And I did remember the *First Things* article in which Phelps had said:

There is more to economics than the desire to consume and to avoid risk.

Which brings us a step closer to connecting morality and economics. Morality, after all, is more than obedience to the rules of social conduct; to be moral is to foster the betterment of humankind. If we place innovation at the center of economics, then we in effect make a sweeping assertion about “human nature” for we claim, at some level, that man is an innovator. (Phelps 2009)

I’ll return later to innovation, which has become a favorite theme for me and is an area of economic investigation that can be enriched by a Christian view of human beings. Instead, let me say first a few things about two economists I had encountered before I used Phelps’s text who have helped me to think about the relation of Christian theology to economic analysis. The two economists are Richard Whately and Frank Knight.

Whately was one of the first names that my thesis supervisor, Anthony Waterman, gave me when during my first year of graduate study in economics I assisted him in surveying the history of economists’ writing on the relation of Christian theology and economics (Waterman 1987). An Anglican churchman known for his analysis of logic and rhetoric, Whately was also an economist. Indeed, he was probably the only person who has ever gone straight from economics professor to archbishop! (He left the Drummond Professorship of Political Economy at All Souls College, Oxford University to become Archbishop of Dublin in the Church of Ireland.) Whately (1832) was a defender of the relevance of the principles of laissez-faire economic thought for Christian moral theorists.

(The opposite claim—that Christian morality was relevant for proper social and economic thinking—did not, in Whately’s estimation, need a defense.) The close link made between political economy and utilitarianism had led many Christian moralists in England to dismiss economics because they associated it with disregard for the poor and a willingness to accept utilitarianism’s ‘low’ view of human beings. Remember Wordsworth (1822) pleading with us to “Give all thou canst; high Heaven rejects the lore/Of nicely-calculated less or more”? Or the sermons of F. D. Maurice, somewhat later, convincing Charles Kingsley and others to help form the Christian Socialist Movement, in order to take a cooperative, non-adversarial approach to England’s social problems? Whately argued, instead, that scientific investigation of *catallactics* (Whately’s preferred term for the study of market exchange) was independent of moral inquiry, in all its various forms. The science of exchange was not any more hostile to Christian morality than Copernican astronomy was. But Christian social thinkers would ignore economic principles to their peril.

While I was not completely in agreement with Whately’s positive-normative distinction, I had already accepted certain basic principles of economics, such as the mutually beneficial nature of exchange and the constrained nature of human action necessitating continual tradeoffs among values (opportunity cost), as being useful for any investigation of political economy. Indeed, even before I entered economics, I had argued that the Christian view of human nature implied that every choice a human made carried with it both positive and negative consequences; no choice—short of Jesus’s redemptive act on the cross—could be wholly good. Opportunity cost seemed to me a logical extension of the basic human problem, a point driven home to me by reading Vivian Walsh’s little book *Scarcity and Evil* (1961), the novels of Leo Tolstoy and Fyodor Dostoyevsky, the opening chapter of Knight’s *The Economic Organization* (2013/1951), as well as Barry Gordon’s (1989) study of *The Economic Problem in Biblical and Patristic Thought*. Gordon’s work intrigued me because it suggested that the Judeo-Christian tradition had a range of possible solutions to the problem of scarcity, both institutional and personal, that might not even be considered by economists. Indeed, I was delighted shortly after reading Gordon’s book when I learned that Knight used to tell students that the economic problem would never be solved until we all adopted the “St. Francis model”—reducing our wants below the level of the resources available. Knight, of course, didn’t think this was possible, but I was surprised to see the Christian ascetic model stated so precisely by someone who had abandoned the faith.

What Whately, Gordon, and others made me realize was that, as a Christian, I needed economic theory to understand the world of market exchange and the rules societies created in their efforts to constrain its effects. I also began to realize that economics was not incompatible with Christian understandings of the human

person and human flourishing. Exchange in particular was often viewed positively and understood as part of human cooperation even if, as motives, avarice and greed were discouraged. Philip Wicksteed's principle of "non-tuism" convinced me that economic theory requires us only to accept that people have purposes, and that however egoistic or altruistic those purposes may be, markets will coordinate exchanges well as long as one participant in an exchange does not take the well-being of the other participant in that exchange as her primary purpose (Wicksteed 1910).

The pursuit of graduate education in economics was, for me, the pursuit of an answer to a problem in intellectual history. I was absorbed by the way economics had come to replace theological ethics as the underlying way of thinking used to address social problems. Whether in its Marxist or neoclassical forms, economics had transformed the language of social analysis in such a way that theological inquiry sounded like a foreign language. Why and how had that happened? My instincts told me that something important had been lost in the transition, although I quickly began to realize that much had also been won. Two years into my graduate studies, as I was completing my coursework, Anthony Waterman hosted a conference for Anglican economists. My own contribution to that conference was a plea to keep alive some of what had been lost. During a break, in casual conversation, the late Paul Heyne asked me if I had read any of Knight's work. I replied that I had, both while helping with Waterman's survey and independently. Heyne, in his quiet way, suggested that revisiting Knight would be probably be important for my project.

It was at that point that I re-read Knight's essay "Ethics and Economic Reform." The line by Knight that caught my attention said quite starkly: "evil rather than good seems likely to result from any appeal to Christian religious or moral teaching in connection with problems of social action" (Knight 1999b/1939, 47). Knight argued that the problems of social action in the impersonal context of rules for liberal democratic society cannot be resolved by appeals to Christian personal morality. Given his proclivity to attack Christian moral principles frequently in class, is it any wonder that students at Chicago used to say "There is no God, but Frank Knight is his prophet"? (Buchanan 1982, xi).

But I had also read "The Ethics of Competition" (Knight 1999a/1923), in which Knight had held the market up against Stoic and Christian ethics and found it wanting. And at the end of "Ethics and Economic Reform," Knight (1999b/1939, 65) decried the current lack of "an adequate ethics," because without it, "economics has little to say about policy." Indeed, from the late 1930s until the end of his life, Knight's project was to identify the key principles that were required for the maintenance of a free society. While a central part of that project was the criticism of religious ethics, an equally important part was a refusal to reduce

discourse in a free society to either economics or politics. The science of economics, he argued, provided a few principles that were relevant to understanding the consequences of impersonal human action but unreliable as predictive tools of policy analysis. Democratic political principles were also needed. Knight (1960) examined the ability (or lack thereof) of democratic governance to find rational norms through voting and discussion. But the glue that held his political economy together was the requirement for a separate and independent social ethics. In the absence of the assumption that values would converge in a democratic society, common agreement on values would require significant discussion. At the same time, Knight was under no illusion that current ethical norms were sufficient—he criticized every ethical system known in his time. He maintained at the end of his life, as he had at the beginning, that life was ultimately an exploration in the field of values, not simply an exercise in the satisfaction of a generally accepted set of needs and wants.

What does Knight's analysis have to do with religion other than the criticism of religious ethics in modern society? After years now of reading and discussing Knight's work, I keep returning to three themes in his work, themes that Christians and perhaps other religious persons can appropriate from his work. The first is the affirmation of the duality: Life is economic; economics is not all of life. The effort of many religious ethicists to segregate life into the realm of this world (economic and political) and the realm of the next world (spiritual) is problematic on both scores. Similarly, following George Stigler and Gary Becker (1977), Knight's students at Chicago extended the first proposition—life is economic—so far that one wondered if any room remained for Knight's second proposition—economics is not all of life (Emmett 2009a). The fact that Knight refused to yield on the second is one of the reasons I have argued that Chicago rejected Knight (Emmett 2009b). To affirm both may require, as I argued in a paper presented at the History of Economics Society meeting when Anthony Waterman was honored as a distinguished fellow, a sacramental perspective (Emmett 2007).

Secondly, Knight was tenacious in his opposition to those who tried to claim special authority *in a democratic society* for their ethical or scientific viewpoint. In the same way that exchange value cannot be known outside the market process, societal values cannot be known outside the democratic process of discussion. Knight never argued that Christians could not bring their moral values into that discussion, but he did insist that those values should not be given authority simply because of religious claims to truth. The relation of Christianity to democratic discussion is a difficult one, and one can find both Christian affirmations and rejections of democratic openness (see Hecló 2009 and Kraynak 2001 for different considerations of the problem). While Knight's personal rejection of religious

belief came through clearly in his work, his opposition to religious ethics was primarily rooted in what he saw as the church's claim to a special authority.

Finally, from the start of my study of Knight's work, I recognized in it a man who deeply understood the appeal of the certainty of the world that had been given up in pursuit of a liberal society, but who nevertheless was willing to live constantly in the uncertain presence of freedom. I use the word uncertainty consciously, of course, because it is the term most often associated with Knight, and the theme of his famous book *Risk, Uncertainty and Profit* (Knight 1921). Economists like to reduce the meaning of the word to 'uninsurability' or 'situations for which settled probability distributions cannot be formed.' But for Knight the meaning went much farther. Part of the economic meaning he ascribed to the term lies in the necessity for the entrepreneur to trust individuals under her direction to make decisions that would not endanger her enterprise (Emmett 2011)—a moral judgment. But even that linkage of moral judgment and economic decision does not convey the entirety of Knight's rambling discourse on economics and ethics in modern life across the second half of his treatise. Here was a man who understood that the uncertainty of modern life made all decisions both free and tragic (Emmett 1999). That duality continues to attract me to Knight's work.

Uncertainty also brings us back to innovation. The theory of the entrepreneur in Knight's famous book is often criticized for being theoretically 'thin': entrepreneurship is not a personal trait but a function. There is no vision sparking creative destruction (Schumpeter 1942), or alertness to entrepreneurial opportunity (Kirzner 1979). I suspect the reason is Knight's unwillingness to affirm indirectly the truthfulness of any particular moral theory by using it to fill in the content of human nature. The same can be said for the economic profession's inability to account for innovation within the confines of its equilibrium models. When innovation cannot be explained as more than technical change, and hence as a function of the investment in research and technical knowledge, is it surprising that innovation is made to join the list of 'market failures'? The result is statements like that in the 2010 *Economic Report of the President*: "overwhelming evidence shows that innovation creates positive 'externalities' [, . . . thus], on its own the market will produce less innovation than is optimal. Public policy therefore has a powerful role to play" (p. 260).

While I appreciate the concern that religious ethicists have for the lot of the poor, they often miss the opportunity to bring their perspective to bear on innovation—the primary driver of economic growth, according to most economists. And, as Deirdre McCloskey repeats often, the improvements that come from innovation have greatly benefited the poor (see, for example, McCloskey 2010). Christian social ethics has the resources to enrich our conversation about innovation.



Christians believe that humans are made in the image of God. God is a creator, and there are rich resources to draw upon for a theology of creativity and improvement. Let me outline three aspects of such a theological vision that could assist society's discussions of innovation, economic growth, and, yes, even inequality.

First, the impetus (and, I might add, the right) to create things is part of human nature as *Imago Dei*, and we should not be surprised that people seek to use their creativity to improve the lives of those around them. Innovation cannot be thought of as just technical tinkering—the creation of what a scientist realizes they can do. Human conceit will often mislead the scientist (and government/university bureaucrats) into thinking her new creation is an obvious success. But the market test is needed. Markets provide a context in which our creativity can be channeled toward the creation of things that will provide value to others. Market success is required for innovative improvement.

Secondly, Trinitarian theology teaches us that the individual only exists in community. Adam Smith understood this, but modern economics sees individuals in isolation, interacting principally through impersonal markets. A theory of innovation needs a morality of human action in community, where human action in market and non-market contexts connects us. Theologians have tended to emphasize personal relations like the family and church when discussing community. Fair enough, but Tocqueville was headed in the right direction when he included business interactions in civil society's voluntary associations.

Finally, incarnational theology provides us God's charity and generosity as a model of our innovation. Innovative improvements are acts of generosity: an innovator may receive far less of the value created by their improvements than their customers do. And most of the time they are happy about that (fallen human nature being what it is, we can't say all of the time!). My TEDx talk "Innovation as an Act of Love" ([link](#)) tries to capture some of this theme and consider its possible meaning for economics and public policy.

Despite the fact that every part of life has its economic aspect, life itself is more than economics. Whether we think about choice, social improvement, or innovation, our consideration of the problem requires us to consider both what economics can teach us and what we can learn from moral perspectives. Christian theology can contribute to the latter task.

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## About the Author



**Ross B. Emmett** is Professor of Political Economy and Political Theory & Constitutional Democracy at James Madison College, Michigan State University. A historian of economic thought, his work is concerned with the constitutional political economy of a free society and the enhancement of the bourgeois virtues that support it. He is currently writing a biography of Frank Knight, co-authoring a book on T. Robert Malthus's contributions to constitutional political economy, and planning a book on the history of the relation of economics and Christian theology since the 1830s. His email address is [emmettr@msu.edu](mailto:emmettr@msu.edu).

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# Philosophy, Not Theology, Is the Key for Economics: A Catholic Perspective

Daniel K. Finn<sup>1</sup>

[LINK TO ABSTRACT](#)

In spite of all its strengths, mainstream economics is deeply inadequate. Three problems stand out: an inadequate conception of human choice, the eclipse of real causal forces that occur within the ‘black box’ of the market, and an inadequate conception of method in social science. People of religious faith have religiously-founded objections to these inadequacies, but it does not take religious faith to recognize the problems, nor to address them. Although some people have argued to the contrary (Milbank 2006), economics does not need an infusion of religious or quasi-religious formulations; it needs, rather, the insights of other social sciences as well as of the philosophy of social science.

The title of this essay describes my view as a “Catholic” perspective on the question because, more than any Protestant denomination, Roman Catholicism has always had a strong confidence in what human reason can grasp, even reason as unaided by the divine revelation of the Bible. The theologians of the early centuries of Christianity borrowed heavily from the secular philosophical traditions of Greece and Rome, particularly from Stoicism. The most important theologian in the history of Catholic theology, Thomas Aquinas, extended Aristotle’s “pagan” understanding of the structure of the world into a “natural law” ethics, by which both believers and non-believers can discern what leads to a flourishing human life, the basic characteristic of virtues in both Aquinas and Aristotle. The fundamental conviction that God both established the natural order of the universe and revealed

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1. St. John’s University, Collegeville, MN 56321.

himself in the Scriptures led Aquinas (and leads Catholic teaching today) to the conclusion that there cannot be any fundamental contradiction between the authentic insights arising from these two sources.

What the Catholic intellectual tradition provides is not simply a list of moral do's and don'ts. Far more broadly, it presents a way of understanding that has many similarities with secular modes of understanding. The Catholic tradition presents both description and prescription. It is for this reason that Catholic social thought has long rejected the economist's view of human decisionmaking as utility maximization.

Nonetheless, my perspective does not imply that economics needs religious insight in order to improve its description of economic life. The inadequacies of the three issues identified above have been thoroughly investigated within purely secular intellectual traditions as well. Catholic theology itself has philosophical underpinnings (in addition to religious ones) and is quite able to rely on non-religious social science, as long as that science adequately describes the earthly realities it explores.

The descriptively inadequate view of human decisionmaking as utility maximization has been widely criticized by many over the 140 years since it was developed by William Stanley Jevons (1871), Carl Menger (1871), and Léon Walras (1874). John B. Davis (2011) has provided a helpful overview of issues in his *Individuals and Identity in Economics*. And many other expositions exist. Behavioral economics over the last three decades has begun to investigate the shortcomings of the standard rationality assumptions. Still, this work has not yet had much influence on either the basic microeconomic paradigm of the science or the belief by most economists that people really do attempt to maximize their utility.

The second shortcoming of the mainstream paradigm is its highly abstract conception of markets as a 'black box'. Economists pay little or no attention to what actually occurs 'inside' markets; those sorts of things are considered part of sociology. Economists focus on prices. Thus, to take a classic example, a freeze in the coffee growing regions of Columbia is vaguely assumed to work its way through the chain of economic relations from the coffee plantation to the American grocery store, but basic microeconomic theory ignores those relations and instead models the effect of price changes overall. A more adequate view of the market for coffee will understand it as a social structure, which requires some insight from sociology. But before we can understand the potentially helpful relation between sociology and economics, we need to turn to the third problem and return to the second later.

The third fundamental shortcoming of the mainstream paradigm is its empiricist foundations. The shortcomings have been illuminated by the British philosopher Roy Bhaskar, the developer of "critical realism" in the philosophy of science, who has set out to overturn 250 years of empiricism since David Hume.

Hume's fundamental influence on science was rooted in an epistemological limitation. The only thing that we humans can be really certain of, he argued, are our sense perceptions. The only reliable knowledge is what we perceive through our five senses.<sup>2</sup> This means, however, that the everyday notion of causality possessed by the man-on-the-street had to be rejected, since we have no access to any underlying mechanisms of causality in the world. John Stuart Mill put it quite simply a century later.

We have no knowledge of anything but Phænomena. . . . We know not the essence, nor the real mode of production, of any fact, but only its relations to other facts in the way of succession or similitude. . . . Their essential nature, and their ultimate causes, either efficient or final, are unknown and inscrutable to us. (Mill 1866, 6)<sup>3</sup>

As a result, scientific laws in empiricism can be nothing more than statements about the regularity of succession of sense perceptions. And the cause of a phenomenon is, as Mill describes it, "the antecedent, or the concurrence of antecedents, on which it is invariably and unconditionally consequent" (Mill 1874, 245). All we can say about causes is that if A always and unconditionally precedes B, then A is the cause of B. We cannot delve into why or how the causality works. When I drop my shoe, it hits the floor 'because of the law of gravity', but there is no 'why' or 'how' behind that scientific law that we can have any access to.

Similarly in economics, the effect of empiricism is that we say that following a freeze in Columbia the price of coffee at the supermarket will rise 'because of the law of supply and demand'. Mainstream economists tend not to be doctrinaire empiricists, and so could, if they wished, do interviews of a coffee grower and the buyers who deal with him or could study the relation between final consumers and the supermarkets where they shop. But in fact mainstream economics almost always stops at the assertion of the law of supply and demand.

In contrast, Roy Bhaskar asserts that the empiricist description of science conflicts fundamentally with what scientists actually do. The physicist working in a

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2. This limitation of what humans can know played a large part in Hume's rejection of religious faith. Interestingly, although it seems to have been no part of his intention, Bhaskar's project, if successful, would make religious faith more intellectually defensible even from a secular perspective since it defends the intelligibility of ontologically real 'things' that are not sense-perceptible.

3. Mill in this paragraph was describing the thought of Auguste Comte, later adding: "The conviction. . . that knowledge of the successions and co-existence of phenomena is the sole knowledge accessible to us. . . was probably first conceived in its entire generality by Hume, who carries it a step further than Comte, maintaining not merely that the only causes of phenomena which can be known to us are other phenomena, their invariable antecedents, but that there is no other kind of causes: cause, as he interprets it, *means* the invariable antecedent" (Mill 1866, 7-8).

highly controlled atmosphere called a laboratory works creatively to eliminate most of the influences that exist in the world so that an experiment can focus on one or two relationships. In this “closed” system of the lab, the scientist may discover Humean regularities of sequence, but such regularities almost never occur in the “open” system of the real world. In addition, most physicists do not think they are only describing a sequence of sense perceptions but are describing how real objects in the world interact, otherwise they would have little reason for confidence that the insights they come to in the lab would have applicability in the world outside (Bhaskar 1975).

From the point of view of critical realism, scientific laws are *not* the causes behind the things that happen in the world. Rather, laws are the scientist’s best effort to *describe* the “intelligible connections”—ontologically real relations—among things in the world (Bhaskar 1975, 45-56; 1998/1979, 2). That is, scientists surely start with their sense perceptions of what occurs around them, but they can come to understand the mechanisms in the world that cause things to occur. As a result, the shoe does not hit the floor because of the law of gravity but because of the ontologically real relation between the shoe and the earth which Newton’s inverse square principle aims to describe. Similarly, then, the price of coffee does not rise after a freeze because of the law of supply and demand. Rather, the law of supply and demand is the economist’s best effort to summarize the causality that is embedded in the ontologically real relations among market actors that stretch from the coffee grower to the consumer in aisle six. This shift of perspective to attend to economic relations has large implications for economic science, but it runs against the grain of orthodox economics.

One of the central reasons that mainstream economists undervalue the relations that occur within the social structure we call the market is that they generally take a sharply individualistic interpretation of the world. Methodological individualism (Buchanan 1975, 1) is an approach to describing the social world that asserts that any social phenomenon can be understood (or ‘explained’) only by tracing it to the actions of the individual persons involved in it. Critical realism rejects this individualism as quite simply a misunderstanding of agency and social structure. To take a simple example from our political life, an individualistic interpretation of elections is that their results are caused by the decisions of individual voters. Although this is surely a critical part of the cause of the outcome, in an election system such as exists in the United States, the gerrymandering of election districts to favor one party over another can and regularly does make a significant difference for the election results. Understanding markets as only the outcome of individual decisionmaking is similarly naive; it’s like analyzing elections while ignoring the shape of election districts.

Critical realist sociologist Douglas Porpora (1989) describes a social structure as a system of relations among pre-existing social positions. Consider the local factory as a social structure. There are many sets of relations there, but the most fundamental is that between a production worker and a supervisor. When anyone enters, say, the position of supervisor at a factory, they encounter a series of restrictions, enablements, and incentives built into that position, some of which might lead that person to do things (for example, be stern with a subordinate) that this person would not ordinarily do in the other parts of life. At the same time, however, this person is now enabled to do various things, such as organize the work to be done, influence the work atmosphere, and have an income to support a family. These restrictions and enablements are experienced as incentives which the supervisor now faces. Similarly, any individual who enters into the position of factory worker thereby enters the pre-existing relation of worker/supervisor and also encounters a series of restrictions (such as the obligation to do what the boss says), enablements (such as on-the-job training), and incentives arising from those restrictions and enablements. There will always be unique characteristics generated when one particular worker interacts with one particular supervisor, based on their personalities, hobbies, or other characteristics. But the vast majority of what happens between them is causally conditioned by the relation between workers and supervisors that existed before either of them took on their jobs.

In critical realist sociology (Archer 1995), only persons are agents, but social structures have powerful causal impact in the lives of agents simply because those agents will make decisions to accomplish their goals within a field of restrictions, enablements, and incentives generated by the relations into which they enter. There is no determinism here; a subordinate might refuse to do what the boss says, or a boss might refuse to implement an overly strict rule his superiors insist he must enforce. But if either happens, the one violating the restriction will typically face penalties, perhaps even the loss of the job. Structures are powerful causes even though only people make decisions.

Much more could be said about both the philosophy of science and the sociology of social structures, but we can now return to our earlier critique of the market as a black box, employing a critical realist analysis.

Markets are social structures. When I buy a shirt at Macy's, I enter into the pre-existing relation between consumer and clerk at a department store. The individualistic economic interpretation here is that I simply face an opportunity set and choose the shirt with the combination of price and quality which will help to maximize my utility. But under a critical realist sociological interpretation, when I enter the position of consumer I take on restrictions, enablements, and incentives. Among restrictions is the fact that I am not allowed to bargain over the price of the shirt, even though in some markets such bargaining is quite standard. Among



the enablements is the ‘returns’ policy at Macy’s, more generous than at some other stores. And, of course, the clerk also faces restrictions, enablements, and incentives. For example, she must remain calm even in the face of an unreasonable customer, a patience she might never show in the rest of her life.

The chain of relations that makes up the market for shirts extends then from consumer/clerk to clerk/supervisor, and through a series of intermediate relations to the relation of factory owner/factory supervisor in China and the relation between supervisor and seamstress. Each relation between pre-existing positions is a causally critical, ontologically real link in the chain we call the market for shirts.

The first thing to note is that price signals—whether arising from a change in taste of consumers or from a change in the minimum wage of seamstresses—are causally relayed through the various relations among pre-existing positions that constitute the market. Price changes do not simply “jump” from one end of the chain to the other (even though the ability of a textiles analyst to predict a change in price may tempt economists to think the causal chain isn’t really there).

The second thing to note is that price is only one of many economically important restrictions, enablements, and incentives that exist in each of those links in the chain. Work conditions and days off are a critical part of the relation between seamstress and supervisor (and in many other links in the chain), while the consumer may find important the ‘atmosphere’ in the store, the attitude of the clerks, and, for some, even knowledge of whether the seamstresses who made the shirt were treated justly.

This last idea brings us back to why many with a religious faith yearn for a more adequate economic science. A disembodied market, the black box of neoclassical economics, does not allow people of faith to understand the ontologically real relations that causally connect me, a shopper at Macy’s, with the people half a world away who make the shirt I buy. Nonetheless, it is not only people of faith who care about these issues, and the needed changes in economics that would be required do not entail an infusion of explicitly religious notions. What is required is the inclusion of a more adequate view of human decisionmaking, a careful attention to the internal workings of the market, and a more adequate, non-empiricist science—all of which are available in our world today, whether or not an economist has any religious commitment.

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## About the Author



**Daniel Finn** is Clemens Professor of Economics and Professor of Theology at St. John's University, Collegeville, Minnesota. He earned an M.A. and Ph.D. at the University of Chicago. He is a past president of the Association for Social Economics, the Society of Christian Ethics, and the Catholic Theological Society of America. His books include *Christian Economic Ethics: History and Implications* (Fortress, 2013), *The Moral Ecology of Markets: A Framework for Assessing Justice in Economic Life* (Cambridge, 2006), *Distant Markets, Distant Harms: Economic Complicity and Christian Ethics* (editor, Oxford, 2014), and *The True Wealth of Nations: Catholic Social Thought and Economic Life* (editor, Oxford, 2010). His email address is [dfinn@csbsju.edu](mailto:dfinn@csbsju.edu).

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# Moving from the Empirically Testable to the Merely Plausible: How Religion and Moral Philosophy Can Broaden Economics

David George<sup>1</sup>

[LINK TO ABSTRACT](#)

Religion's role in my life has been rocky. Until college I belonged to an Eastern Orthodox church. More than encouraging belief, it provided the social glue for Detroit's Lebanese community, particularly useful in a city of ethnic blending where all ethnic groups were spread throughout the metropolitan area.

As a junior at a public high school, I discovered Bertrand Russell's "Why I Am Not a Christian"—a truly radical title to my sheltered ears. The essay inspired skepticism in me and led to my becoming an overnight agnostic, going so far as to write something of an agnostic's manifesto for my 11th grade English class that ended with the truly grandiose "we must throw off this curse that blinds our progress." Since the 1980s I've been a member of Quakers, who practice 'silent worship'. All sit in silence and reflect and only if 'moved' should one rise and speak. My marginality as an actively religious person is revealed by my failure to be so moved even once over my 28 years as a member. I do benefit from the messages of those who do speak. And considering that I have to restrain myself from dominating academic conversations, my silence at Quaker meeting provides a nice opportunity to be a listener.

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1. La Salle University, Philadelphia, PA 19141.

Sixteen years prior to my joining the Quakers, while still an undergraduate, a series of events moved me away from science and in the direction of philosophy and, to a much lesser extent, religion. I had a research interest in psychology, but it was taught in a very positivist way and I became disenchanted with it. It was introspection that led me to see how I assigned a spatial orientation to wherever I was and to see that these orientations were often inconsistent with one another. The organizers of a conference where I presented my first academic paper required that testable propositions be included. Simply taking my introspection as evidence for what I was alleging was unacceptable. This experience caused me to doubt the scientific approach for two reasons. First, in treating human existence as evident only from the physical reality, science gave consciousness second-class status. The primacy of Hume's claim that all he could be absolutely sure about was his own existence—"I think, therefore I am"—would clearly not meet the scientific test (though Hume's skepticism could not affirm the existence of others). Second, and more significantly, science radically biased our understanding of people by treating them as manifested in their actions rather than by their simply being. The reluctance to treat self-reports as credible evidence meant that aspects of my directional-orientation experiences were necessarily untestable since they did not result in any likely change in behavior; that is, how I interpreted the location of my being was said to have no implication for action. As I read it, 'being' was taken less seriously than 'doing'. Being was regarded as something of an epiphenomenon. The focus on action has led education to be understood almost exclusively as 'learning to do'. The possibility that one might *do* nothing differently after graduation than she would have done absent the education would delegitimize the education she received, changes in 'being' simply not counting.

I felt pushed out of psychology by the monopoly that positivism had there, and pulled into economics by a strong interest in whether preferences were truly revealed by choice. But once again my reliance on introspection created problems. In trying to make sense of how I freely chose to do things that at some level I would rather not have done, I was led to an idea of 'metapreferences'—preferences about one's preferences. I questioned the assumption that expanding one's 'choice set' could only leave one better off. Economists seemed to take it as obvious that more possibilities could not harm the person; he would be made better off, as now something more was available, in addition to all that had been available (George 2001). How, then, to explain my sometimes feeling better off when I had fewer choices? I reasoned that exclusion of options can have the effect of changing one's preferences—out of sight, out of mind—and thus might be a means of attaining the preference that I wanted to have, to act on it, and thus to be better off.<sup>2</sup>

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2. Elster (1983) wrote of one possible reason for not missing the omitted thing, "sour grapes."

I saw that there were two ways in which ideas associated with religion might help me out. First, nearly all religions acknowledge internal struggles. It appeared to me that the increasingly science-driven fields of psychology and economics were less comfortable with such struggles. After reading a draft of my first metapreference paper, a classmate steered me to a passage attributed to St. Paul: “I do not understand my own actions. For I do not do what I want, but I do the very thing I hate” (Rom. 7:15). Here, of all places, was someone trying to better grasp the experience of internal conflict. Though internal conflict did find its way into the major journals, beginning perhaps with the work of Richard Thaler and H. M. Shefrin (1981), the emerging model of a conflicted agent nonetheless avoided focusing on the experience of such an agent. Internal conflict was modeled as a war between competing selves residing in the conflicted person. In keeping with Milton Friedman’s claim that the truth of assumptions doesn’t matter (Friedman 1953), simply saying that an agent behaved ‘as if’ he were more than one person became acceptable. The normative component of my work was the failure of markets in shaping tastes. On the positivist image of science, the moral I was after was off the table. St. Paul, needless to say, was comfortable with normative claims, but mainstream economists tend not to be. Speaking of better or worse preferences makes little sense when we think of the agent as more than one person. Far-sighted self may gain and short-sighted self may lose. It is not, however, possible to say that the individual is better or worse off, just that part of the agent gained at the expense of another part. In contrast, by the metapreference approach, a change in one’s preference can be treated as an unequivocal change in one’s well-being.

As Daniel Klein (2014, 98) notes in the Prologue, economics “flatten[s] decision down to choice” and “tends to confine freedom or liberty to matters of the possibility frontier.” The philosopher Harry Frankfurt (1971) would certainly agree. For him, it was the capacity to have a metapreference that set humans apart from non-human life. And yet it was this particular kind of preference that was completely ignored by mainstream economics.

Over the last decade, my main interest has been in changes in economic rhetoric over the last century, rhetoric as found in the popular press (George 2012). Most striking is a steady drift rightward. As one example, since 2000 the unemployed have been described less sympathetically than over any decade of the 20th century. As another example, “economic growth” went from appearing about 10 times as often as “economic justice” in the 1930s, to 60 times as often since 2000.

The current Pope has had much to say about modern economic beliefs and economic realities, placing him well to the left of all but a small sliver of U.S. opinion makers. Consumerism is still very much a concern: “The worldwide crisis affecting finance and the economy lays bare their imbalances and, above all, their lack of real concern for human beings; man is reduced to one of his needs alone:

consumption” (Francis 2013, §55). Of even greater concern has been rising inequality. As the Pope puts it, “Can we continue to stand by when food is thrown away while people are starving? This is a case of inequality. Today everything comes under the laws of competition and the survival of the fittest, where the powerful feed upon the powerless. As a consequence, masses of people find themselves excluded and marginalized: without work, without possibilities, without any means of escape” (ibid., §53).

In my work on the changing rhetoric, I found many indicators that there has been a steady trend to favor competition as a guide to the good life over cooperation. Prior to 1980, “competition” and “cooperation” appeared equally often in the press. But since 2000, “competition” has appeared three and a half times more often. More tellingly, positive adjectives to describe competition (e.g., “healthy,” “desirable,” “necessary”) went from being just as likely as negative adjectives (e.g., “unhealthy,” “undesirable,” “unnecessary”) before 1980, to much more likely since then: favorable descriptions appeared 2.5 times as frequently in the 1990s and *seven* times as frequently since 2000. Clearly, competition is viewed more favorably now than ever before, despite inequality now reaching new highs (George 2012).

How is this possible? Haven’t women, African-Americans, and other minorities experienced advances in the ability to compete? Wouldn’t it seem that we would become more equal? A part of the problem might be the trend toward treating ‘equal opportunity’ as the cure for rising inequality. Revealingly, however, religious notions of social justice had much more to do with results than with opportunities. It might well be that the focus on opportunity has facilitated the rising inequality.

Consider that *opportunity* can have two very different meanings. I might offer you an opportunity to have dinner with me next week. This means that you can indeed have dinner with me, and to not accept the invitation is your choice. Contrast this with a fair open poker tournament. All have an equal opportunity, in a sense, but only one person wins. There is not convincing evidence that more ‘equal opportunities’ will result in the achievement of more equal results. Perniciously, equal opportunity has had the likely effect of legitimizing inequality by conflating the one sense of the expression (an opportunity to have dinner with me) with another (an opportunity to play in the poker tournament). Such a conflation has the likely effect of ‘blaming’ those who don’t do well relatively speaking. It can lead to the specious reasoning that one has been given the opportunity to be in the top half, and so one’s ending up in the bottom half must have been that person’s choice, just as your not accepting my invitation is ‘your choice’.

Pope Francis’s claim that the survival of the fittest too often includes the powerful eliminating the powerless deserves our attention. Most who consider

themselves as ‘religious’ reject the celebration of no-holds-barred competition. For this reason, if for no other, an attempt to bring ideas stemming from religion into play will likely improve our subject. The conviction that those around us are conscious, feel pain, and are created roughly equal in their ability to gain utility from goods, are faith-based convictions. Although there is unanimity in accepting them, there is nothing scientific or provable about any of them. A critical task of those with religious leanings and knowledge will be to guard against the further strengthening of amoral economics. Be it through moral philosophy or religion, expanding our subject beyond the scientific can only improve what we do.

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## About the Author



**David George** is Professor of Economics at La Salle University, where he has taught since 1979. His main research interest has been the welfare implications of irrational choice. After a 20-year period when he wrote several papers on the subject, his book *Preference Pollution: How Markets Create the Desires We Dislike* was published in 2001. More recent research has focused on century-long changes in economic rhetoric within the popular press, culminating in the 2012 publication of *The Rhetoric of the Right: Language Change and the Spread of the Market*. A longtime member of the Association for Social Economics, Professor George served as its president in 2005. His email address is [george@lasalle.edu](mailto:george@lasalle.edu).

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# Notes of an Atheist on Economics and Religion

Jayati Ghosh<sup>1</sup>

[LINK TO ABSTRACT](#)

I am not a religious person. Indeed in many ways I am deeply anti-religious, at least in terms of much extant religious practice. Yet I do recognize that the dimensions of ethics, the world of the spirit and the need for some broader understanding of one's self and place and role in society and in the universe are both essential and at the same time massively ignored or trivialized by mainstream economics.

It is no secret today that mainstream economics is sadly deficient in many respects, and therefore it provides an inadequate and even misleading analytical framework with which to interpret economic processes and events. The underlying cause of many of its deficiencies may lie not only in various unrealistic assumptions, but in the very philosophical underpinnings of its theoretical framework. Specifically, the analysis is ultimately constrained by a problematic use of methodological individualism and the rather sterile notion of 'rational economic man.'

As is well known, the central assumption of 'invisible hand' models is that self-interest conduces to socially optimal outcomes. As Karl Marx succinctly put it with reference to economic actors, "The only force that brings them together and puts them in relation with each other, is the selfishness, the gain and the private interests of each. Each looks to himself only, and no one troubles himself about the rest, and just because they do so, do they all, in accordance with the pre-established harmony of things, or under the auspices of an all-shrewd providence,

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1. Jawaharlal Nehru University, New Delhi 110067, India.

work together to their mutual advantage, for the common weal and in the interest of all” (1887/1867, 155).

It is relatively easy to criticize mainstream neoclassical economics on these counts, and such critiques have indeed been very effectively propounded (Sen 1977; Hollis and Nell 2007; Meeks 1991; O’Donnell 1989). Clearly, as noted also in the editor’s Prologue to the present symposium (Klein 2014), this simplistic approach to economics flattens a vast amount of human experience, motivation, and discourse to the point of making it all nearly unrecognizable. Indeed, Joan Robinson (1962, 10) had argued that there is a biological necessity for morality to enable the species to survive, such that “the pursuit of self-interest is mitigated by respect and compassion for others,” which are determined by a person’s moral sense or conscience. There are many activities that are explicitly or implicitly economic in nature—much of the unpaid work involved in caring for others like the young, the old and the sick; or activities typically described as “charity;” or devoting time, energy and resources to develop systems of social sharing; or the deep engagement with a discipline involved in personal creative arts like music—that cannot be aptly understood through puerile notions of utility maximization, but must in some way incorporate the realms of the spirit, of duty, conscience, and morality. Appreciation of such realms points to a major disconnect between the mainstream discipline’s perception of the behaviour of economic agents and the lived experience and interaction of people in societies.

But there is indeed a further danger: pervasive expectations that self-interest and monetary gain will dominate human behavior may ultimately become self-fulfilling, straitjacketing people into the rigid constraints set by notions of exchange and the utilities to be derived from sale and purchase. As Michael Sandel (2012) has noted, the expansion of markets and market values into spheres where they do not belong has effects that include more inequality and more corruption, but also, more fundamentally, it may alter basic concepts of human satisfaction, achievement, and pleasure. As market economies become market societies, then, they also undermine and diminish much that is valuable about human existence, creativity, and solidarity, thereby creating both a society and politics that are devoid of moral and ethical content. Such developments in turn make society much more unpleasant and possibly unviable to live in and through, even for the supposed beneficiaries of the system.

The point, of course—as Marx (1888) famously put it—is not just to interpret the world, but to change it. Indeed, that is really what the economics of planning and policy is all about. And the desire for change necessarily requires some moral and ethical perspectives; it requires a framework that can even be described at some level as spiritual. Those who see themselves as positivist economists still cannot escape the element of the normative, of some notion of what is desirable or

valuable, even if only in determining the nature of the questions they ask, the areas that they seek to study, and the audiences they choose to address.

G. L. S. Shackle was an economist in the neoclassical tradition (and a student of the classical liberal economist F. A. Hayek) who nevertheless pointed out the limits to rationality and the importance of “unknowing.” To the question “what should economists do?,” Shackle’s thoughtful response was:

I think they should give up giving advice, except on the most hesitant, the most broad grounds. I think they should introduce an ethical element, a more than ethical element. If a man is asked whether public expenditure should be cut or not, he perhaps should say, “Well, if we cut it, we shall cause a great deal of misery; if we don’t cut it, we don’t know what the consequences will be, but we can’t at least have this misery on our consciences.” This sort of argument is not an economic argument, it’s an argument with one’s conscience. (Shackle 1983, 7).

Shackle’s argument suggests another dimension in the way that economists interpret reality as well as provide policy advice. Instead of the currently conventional practice, whereby policies and processes are supposedly judged by ‘value-free’ technocratic analysts according to some abstract social welfare function, it argues for an explicitly normative and ethical approach in which certain outcomes are clearly seen as desirable or undesirable. It is easy to see how underlying morality relates directly to the important economic controversies of our times: on whether and how to reduce inequalities of wealth and income; on how crucial it is to make the elimination of unemployment the major policy priority; on the significance of ensuring food security to everyone on the planet; on the necessity to have greater regulation of financial markets to prevent not just market failures but ‘unjust’ outcomes of financial volatility. Yet the absence of overt ‘values’ in most mainstream economic analysis persists, and most economists constantly proclaim their freedom from value judgements even when pronouncing on these crucial issues.

So perhaps that is the sense in which spirituality, or even religion, can and does contribute to economics. Spirituality can enlarge the range of human experience to incorporate angles and determinants of behaviour that are excluded by standard positivist economics based on methodological individualism. And it can provide the underpinnings of conscience and sympathy in both analysis and policy advice. Surely we would all be the richer for this—with riches not just quantified in material terms, but in the wealth of a broader humanity.

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## About the Author



**Jayati Ghosh** is Professor of Economics at Jawaharlal Nehru University, New Delhi. She was educated at Delhi University, Jawaharlal Nehru University, and the University of Cambridge. She has authored or edited ten books, including *Industrialization of China and India* (Routledge, 2013). She serves as Executive Secretary of International Development Economics Associates ([link](#)). Her email address is [jayati@jnu.ac.in](mailto:jayati@jnu.ac.in).

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# Entrepreneurship and Islam: An Overview

M. Kabir Hassan<sup>1</sup> and William J. Hippler, III<sup>2</sup>

[LINK TO ABSTRACT](#)

In this article, we provide an overview of entrepreneurship from an Islamic perspective. We compare and contrast the Islamic perspective with the Western perspective. The discussion includes a brief review of the incentives, types of entrepreneurial activities, and financing arrangements typically employed by Islamic entrepreneurs. The influence of Islamic laws plays a significant role in shaping Islamic entrepreneurial activity. Additionally, the incorporation of Islamic laws makes it inappropriate to compare the relative success of the Western and Islamic entrepreneurial frameworks by using size, total productivity, the amount of wealth generated, or similar financial measures. Islamic laws impose altruistic goals on entrepreneurs that make such measures unsuitable.

Islam stresses the importance of engaging in economic activities that advance the goals of society as a whole, and many of the limitations placed on Muslim entrepreneurs are meant to reduce activities that can harm society. Some activities that are prohibited by *Shari'ah* are deemed harmful from a moral standpoint, such as those involving alcohol and gambling. Others, however, acknowledge the need to maintain a stable and just economy. Such limitations include the prohibition of taking unnecessary risks and speculation. The recent financial crisis exposed many of the risks associated with the relatively unrestricted economic activities of Western economies. A comparison between and understanding of different economic perspectives and their respective outcomes is particularly relevant as global economies evolve to strike the appropriate balance between open economies that provide the freedom of entrepreneurs to maximize

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1. University of New Orleans, New Orleans, LA 70148.

2. University of La Verne, La Verne, CA 91750.

their utility with the constructs needed to ensure the well-being and stability of society.

## The Islamic view of entrepreneurship

A casual glance at the state of world economies and economic progress can undoubtedly lead one to conclude that the economic systems of finance and entrepreneurship that have been established by Western economies, namely in Europe and the United States, have far surpassed those of Islamic economies. Indeed, advocates of Western economies often point to the Western entrepreneur as the cornerstone of its success in modern times. Advocates of Western economies sometimes point to the relative financial success of Western business activities as evidence of the superiority of Western practices over those of Islamic systems. Such advocates often assert that religion-based economies hinder economic growth, or that they don't provide adequate incentives or motivation to engage in productive business ventures. The discrepancy between Islamic and Western economies, however, is due mostly to philosophical differences between Islamic and Western economic practices and the benchmarks with which they are measured.

The charge that the Islamic religion does not motivate entrepreneurial behavior is erroneous. In fact, engaging in productive or entrepreneurial endeavors is encouraged and even demanded in the teachings of Islam (Kayed and Hassan 2011; Adas 2006). Islam places a great deal of focus on prayer, but equal importance is placed on earning a living in order to support oneself, one's family, and society. Every Muslim is charged with making a living according to the tenets of the Qur'an and *Shari'ah* laws, the set of Islamic teachings. One such way of earning a productive living is through engaging in economic activities that provide for the real economic needs of society. Thus, by engaging in entrepreneurial activities, Muslims can fulfill their religious obligation to please Allah.

There are, however, some philosophical differences between Islamic and Western perspectives with regards to how entrepreneurship is viewed and measured. In the traditional, Western view of entrepreneurship, the *raison d'être* of economic activity is typically thought of as the individual utility maximization of the economic agents involved, and success is often measured by the financial gains reaped from business endeavors. In this framework, even though the entrepreneur may indirectly benefit others and society through his or her economic activities, societal welfare is not typically a primary motivation for engaging in new business ventures. In addition, even though Western entrepreneurs must adhere to ethical and legal constraints, there is no inherent religious aspect to the entrepreneurial

process. In general, the success of a Western entrepreneur is often defined by the ability of the entrepreneur to maximize his or her personal financial benefits, and any additional benefits that aid in societal or religious goals are secondary.

The Islamic perspective of entrepreneurship has one major difference. Unlike Western entrepreneurs, who are free to separate business and religious practices if they wish, Islamic practices dictate that all transactions, including those of entrepreneurs, should strive to meet religious goals. In the context of Islam, a Muslim's business activities must be focused foremost on pleasing Allah, which includes conducting a business consistent with the moral and ethical standards of Islamic practices, fulfilling one's religious obligations, and contributing to the overall Islamic goal of benefitting society as a whole. From this perspective, in a truly Islamic entrepreneurial framework, religion and economic activities are inseparable, and, as a result, the set of economic behaviors are guided not simply by secular, legal, and ethical guidelines, but by religious guidelines as well.

Additionally, because fulfilling religious obligation is a major motivation for Muslim entrepreneurs, the measures used to evaluate their success are also different. The Western entrepreneur typically judges successes by the financial gains reaped by the business venture. However, the religious aspect of Islamic entrepreneurship implies that success is measured not only by personal financial success, but also by how well religious goals are achieved, which may provide the entrepreneur with rewards in the afterlife. This view is consistent with the Western idea that Islamic entrepreneurs maximize their utility; however, that utility is also derived through religious fulfillment that may not be directly related to financial wealth (Campante and Yanagizawa-Drott 2013).

## Islamic laws and entrepreneurial activity

The lack of separation between religious and business ventures in an Islamic economic framework has significant implications with regards to the activities in which Muslim entrepreneurs are able and willing to engage.<sup>3</sup> In Western economies, business activities are limited by (1) the ethical standards imposed by laws and regulations, (2) the contractual relationships entered into by the entrepreneurs, and (3) the personal standards and goals of those involved. The personal standards of the agents involved may include religious or other personal beliefs that encompass a wider range of activities than those that are otherwise imposed; however, this

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3. Kayed and Hassan (2011), Vargas-Hernández, Noruai, and Sariolghalam (2010), and Akbar (1993), among others, provide discussions of the incentives and types of entrepreneurial activities from an Islamic perspective.

is not necessarily the case. In contrast, Islamic entrepreneurs have the additional responsibility to ensure that business ventures are in adherence with Islamic beliefs as presented in the Qur'an and *Shari'ah* law, the set of Islamic doctrines.

Muslim entrepreneurs must engage in business ventures with a pre-designed desire to engage in an activity that pleases Allah. Consequently, ventures that involve activities that are forbidden under *Shari'ah* law are not pursued by Muslim entrepreneurs. While some economic activities, like those involving illegal drugs and prostitution are also prohibited by Western laws, others, such as those dealing with alcohol, gambling, usury, speculation, etc., are often undertaken by Western entrepreneurs, but are strictly prohibited by *Shari'ah* law, and, thus, cannot be pursued by Islamic entrepreneurs.

Another key distinction between Islamic and western entrepreneurship practices stems from ideological differences with regards to the use of money and the ideal distribution of wealth. In Islamic economies, money serves a slightly different function than that in Western economies. In Islam, economic transactions are only valuable and permitted if they involve or facilitate the transfer of real goods and services that satisfy the needs of society. Money is valuable as a medium of facilitating legitimate economic transactions, but the trade of money itself is not considered a permissible economic end. Transactions that involve the trading of money as a commodity or the trading of monetary goods without a connection to an underlying real asset is prohibited by *Shari'ah* and, thus, not pursued by Islamic entrepreneurs. Additionally, *Shari'ah* laws and Islamic practices prohibit Muslims from engaging in practices that involve excessive amounts of risk, uncertainty, and speculation. As a result, the religious beliefs of Muslim entrepreneurs guide them to reject economic activities that involve excessive amounts of uncertainty and avoid trading in assets of an overly risky nature, such as speculation on commodities or other forms of derivatives.

Finally, the Islamic perspective on the permissible uses of money in economic transactions leads to the prohibition of usury or interest in Islamic economies. The Islamic economy is often referred to as an "interest-free economy," and this is a key difference between western and Islamic economic systems. The prohibition of interest in Islam is founded on several basic laws. First, the payment of interest involves the exchange of money for money, which is inconsistent with the Islamic view that money itself should have no direct value. Secondly, the charging or payment of interest is inconsistent with the ideals of economic fairness and the desire for equality of economic opportunity presented in Islamic teaching. The payment of interest tends to favor the minority who are already wealthy, and multiplying their wealth through interest payments does not serve a valuable societal function and only increases the disparity between the rich and poor. Additionally, demanding fixed interest payments from the poor in



exchange for capital can lead to a cycle of debt that can make it difficult for them to improve their economic situation. From the prohibition of usury in the interest-free economy, Islamic entrepreneurs avoid enterprises that engage in the practice of usury.

## **Financing Islamic business ventures**

Although the incentives for entrepreneurial ventures are similar across Western and Islamic economies, there are some key differences with regard to the philosophical underpinnings of each system. Another key difference between Islamic and Western entrepreneurial models lies in the financing of business ventures.<sup>4</sup> In Western economies, entrepreneurs face two main financial mechanisms for realizing their economic opportunities: debt and equity. In particular, for smaller-scale projects, where the entrepreneur does not have the connections necessary to gain equity financing, debt agreements in the form of small business loans are commonly employed. In Islamic economies, however, the prohibition of interest precludes the use of this popular Western method of finance. As a result, Islamic economies have had to develop alternative means of entrepreneurial financing.

Even though debt financing involves the lending of money in order to facilitate the acquisition of real capital for useful economic production, debt financing arrangements are precluded from Islamic economies because they are considered unethical and unfair. Under a debt arrangement, when the venture does extremely well, the lender still only receives the fixed interest payment. Thus, lenders are only motivated to finance projects of lower risk in order to ensure their repayment. As a result, higher-risk, and often the most innovative ventures, may go unfunded. On the other hand, if the venture goes poorly, the entrepreneur is still obligated to pay the fixed debt payment. Thus, the entrepreneur is often motivated to engage in riskier projects in order to maximize his profits and ensure debt repayment. This conflict of interest between lenders and entrepreneurs under fixed debt payments has been documented and often results in an overall increase in the costs of financing.<sup>5</sup> Consequently, this arrangement is one that is held by Islamic teachings as inherently unfair.

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4. See Ahmad (2000) and Kaye and Hassan (2011; 2014; N.d.) for more detailed discussion of the Islamic financial system and mechanisms for funding Muslim entrepreneurs.

5. Jensen and Meckling (1976), Garven and Pottier (1995), and others discuss agency problems caused by fixed-interest debt contracts. Garven and Pottier (1995) assert that agency issues can cause higher costs of capital.

As an alternative to debt financing, Islamic economies have developed arrangements that aim to provide capital to Muslim entrepreneurs in a more equitable fashion, as well as to align the incentives between the entrepreneur and the lender. Two such arrangements, *mudarabah* and *musharakah*, are essentially profit sharing agreements. Under these agreements, the entrepreneur is able to borrow money from a financial institution, but instead of interest payments the financial institution receives a predetermined share of the profits (or losses). Under a *mudarabah* relationship, the financial institution typically supplies all the capital needed, and the entrepreneur is charged with providing his or her expertise in carrying out the venture. *Musharakah* is a similar relationship; however, under this arrangement, the entrepreneur typically supplies some capital as well. *Musharakah* tends to be the financing mechanism preferred by most financial institutions, because it most aligns the interests of the lender and the entrepreneur.

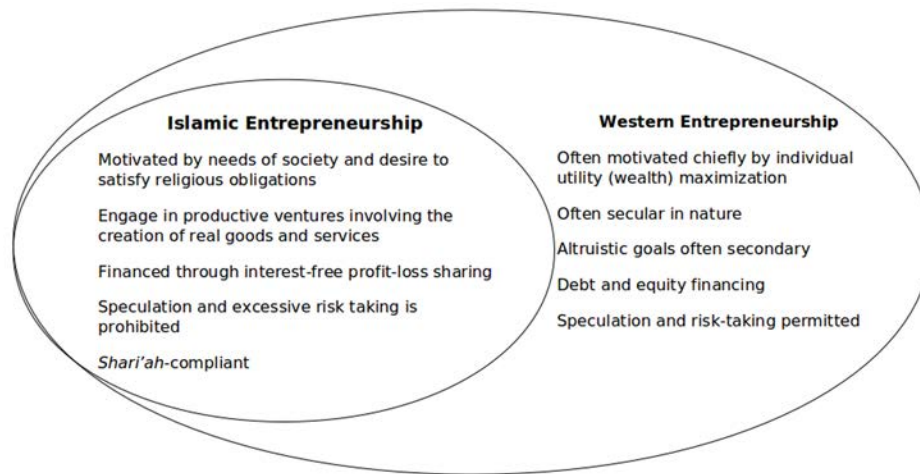
## Entrepreneurial activities across economies

The starkest difference between Western and Islamic entrepreneurship is the inseparability of religious laws and motivations from the business activities of Muslim entrepreneurs. Islamic laws set forth from the Qu'ran and *Shari'ah* law play a major role in shaping the types of Islamic entrepreneurial ventures, the manner in which they are conducted, and the mechanisms in which they are financed. In essence, the realm of Islamic entrepreneurial behavior is a subset of the potential Western entrepreneurial activities, because some entrepreneurial activities and financial mechanisms are not pursued by Muslims due to religious values. Figure 1 depicts the set of entrepreneurial activities and shows that Islamic activities are a subset of those possible under Western economic systems. Some key characteristics that differentiate the two systems are also highlighted.

Critics of Islamic or religion-based economic systems will interpret Figure 1 as evidence that incorporating Islamic beliefs into entrepreneurship is restrictive and leads, consequently, to a less successful system; however, this is not necessarily the case. Muslim entrepreneurs do not judge the success of the Islamic economy simply by the amount of productivity or wealth generated, but also by how well the economy conforms to their religious laws. Proponents of Islamic economies argue that the prohibition of certain endeavors or business practices is acceptable and may even be beneficial, because these practices, such as charging interest, do not contribute (or are harmful) to society. This claim is supported by the recent experience of how complicated derivative transactions, which are precluded in Islamic economies, contributed to the financial crisis of 2008–2009. Islamic teaching also defines successful economic activity to be that which helps create a more

balanced society, and hoarding wealth is prohibited. Some Western economies, on the other hand, have a significant degree of wealth inequality. Assessing the relative success of the Islamic entrepreneurial system is thus difficult, because there are different measures of entrepreneurial success.

**Figure 1.** Entrepreneurial activities



## Conclusion

Both Western and Islamic economies provide significant incentives for engaging in entrepreneurial activities. However, there are key differences between the two systems that may drive the differences in their respective entrepreneurial output. Although Western entrepreneurs often have profit maximization as a chief goal, Muslim entrepreneurs have an obligation to also pursue religious and societal needs. Muslim entrepreneurs comply with the laws of *Shari'ah* law, which precludes them from engaging in ventures dealing with alcohol, drugs, gambling, usury, speculation, etc. Additionally, the non-interest Islamic economy has developed profit-sharing mechanisms like *mudarabah* and *musharakah* as a means for financing potential endeavors without the need for Western fixed-interest loan arrangements. Due to the inseparability of religion and business activities inherent in the Islamic entrepreneurial model, it is inappropriate to judge the relative success of Islamic entrepreneurial activity by the same metrics as the Western system (total productivity, wealth generated, etc.), because Muslim entrepreneurs have altruistic and religious goals that inform their idea of successful business enterprise.

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## About the Authors



**M. Kabir Hassan** is Professor of Finance and Hibernia Professor of Economics and Finance in the Department of Economics and Finance at the University of New Orleans. He is co-author (with Rasem Kayed) of *Islamic Entrepreneurship* (Routledge, 2011) and co-author (with Dr. Kayed and Umar A. Oseni) of the textbook *Introduction to Islamic Banking & Finance: Laws and Practice* (Pearson, 2013). His email address is [mhassan@uno.edu](mailto:mhassan@uno.edu).



**William Hippler** is a recent graduate of the University of New Orleans. In the fall of 2014, he will be joining the faculty of the University of La Verne as Assistant Professor of Finance. His email address is [wjhipple@uno.edu](mailto:wjhipple@uno.edu).

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# On the Relationship Between Finite and Infinite Goods, Or: How to Avoid Flattening

Mary Hirschfeld<sup>1</sup>

[LINK TO ABSTRACT](#)

Does economics need an infusion of religious concepts? Dan Klein (2014) asks that question in part because he worries that economics ‘flattens’ too much of the human experience. His framing of the question that way resonates with me. I left economics to study theology because I too felt that economics was ‘too flat.’ That quest took me to Thomas Aquinas, who indeed offers a vision of human life that resists the problems Klein enumerates. Happily, that same vision helps one to avoid another problem, namely, that of talking past economists, as do many theologians who write on economics.

Aquinas does not villainize self-interest (*Summa Theologiae* (ST), II-II, 26, 4); he does not see private property as a concession to our fallen nature; and he respects human finitude in a way that is congruent with insights into the merits of markets (ST, II-II, 66, 2). Thus was born my project, that of building up an account of economics that is embedded in Aquinas’s larger framework.<sup>2</sup> The value of Aquinas is in the way his framework shapes his understanding of economic life. He thus is not a particularly good source for free-standing concepts to be imported into the practice of a discipline that rests on assumptions at variance with his own.<sup>3</sup> That

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1. Villanova University, Villanova, PA 19085.

2. By “my project,” I mean particularly the book I am working on. Elements of the project can be found in Hirschfeld (2006; 2010; 2014a; 2014b; 2014c).

3. Many seek to retrieve economic insight from Aquinas by going directly to his teachings on just prices and usury. But neither concept is easily imported into a complex market economy; nor can they really be understood apart from the larger framework. On the other hand, Aquinas’s work animates Catholic social thought, which has on offer a variety of ‘concepts’ it would be happy to export. These include the interconnected notions of solidarity, subsidiarity, the common good, human dignity, and a preferential option for the poor. See the U.S. Catholic Bishops (1986) for a useful articulation of these principles and a less useful set of speculations on their concrete policy implications for the American economy in the 1980s.

said, I think economists could nonetheless in principle benefit from an engagement with Aquinas. He does produce a view of the human person that is much richer than Max U and that can also account for the relative success that some economists have had in describing or predicting human behavior. Although that richer view rests on a theological frame that non-believers cannot accept, he at least affords them the opportunity to reflect on the extent to which their own theological commitments<sup>4</sup> drive the flatness of which Klein complains.

It is, of course, impossible to do justice to the Thomistic approach in a short piece. But a quick sketch of one line of argument can start to illustrate the Thomistic approach.

Like economists, Aquinas believes that human action is aimed at securing happiness (ST, I-II, 1, 1-8).<sup>5</sup> In addition, Aquinas shares with economists the belief that humans desire happiness in an unlimited or infinite way (ST, I-II, 2, 8). Where Aquinas parts company with economists is in his account of how that infinite desire works, and how it interacts with the finitude of the human condition in this life.

For Aquinas, the only object that satiates our infinite desire is the infinite good, namely God himself (ST, I-II, 2, 8). Thus he argues that it is only in the Beatific Vision (ST, I-II, 3.8), which is only to be beheld in the next life, that we will know true happiness. Yet in this life we can try to find a sort of imperfect happiness (ST, I-II, 3, 2, ad.4; 3, 6; 4, 7). To explain how this works, we need an account of how to relate the finite goods of creation to the infinite good of God. The account in turn depends on an account of how God is related to creation.

The key point is that God is taken to be the transcendent creator of the world. He is not some powerful being with a long beard stashed off in some corner of the universe not yet discovered by astronomers. This transcendent God is the one necessary being who creates the contingent universe *ex nihilo*,<sup>6</sup> out of nothing. It is a creative act reflecting God's transcendent goodness. The finite good we find in this world reflects God's goodness: there is nothing apart from God to serve

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4. I count as a theological commitment any adherence to a set of baseline assumptions about the nature of the world in which we find ourselves, including the default assumptions implicit in economic practice that the universe is such that it can be treated as if it were a free-standing entity devoid of value apart from the desires projected onto it by creatures such as ourselves, and that our pursuit of the good in this universe is independent of the pursuit of any eternal or transcendent good. Those assumptions are compatible with some forms of belief in God, so they are not necessarily atheistic assumptions. See Henri de Lubac (1967) on extrinsicism as a Catholic form of those assumptions, which de Lubac (and I) regard as not compatible with the deepest wisdom of the Catholic tradition, but which nonetheless surfaces too frequently to be rejected as purely heretical.

5. The references to Aquinas point to the central texts that support the claim, though a full picture of what Aquinas is getting at requires a more thorough reading of the *Summa* as a whole.

6. While the doctrine of creation *ex nihilo* is consistent with the big bang theory, it is better understood as an ongoing creation. God holds us in being moment by moment, breath by breath (ST, I, 46, 1 and 2).

as a source for the goodness we find (ST, I, 44, 3; ST, I, 45, 5). The relationship between God and creation is essentially analogical. By that I mean that the eternal and temporal goods are neither completely disparate, wherein earthly joys would bear no relationship to the joys of heaven. But neither are they completely the same, such as we might imagine if we thought that heaven was just a ginormously large quantity of earthly goods (Sokolowski 1995). The analogy I like to use is to think of our feelings about our lovers and the love letters we have from them. If we are separated from our lovers, we treasure the letters we have from them. But we never mistake the letter for the lover. Nor would we imagine that an accumulation of letters could get us to the joy of actually being with our lover.

If we thought of the infinite good as simply a ginormous bundle of finite goods, then we could imagine that we approach the infinite good that we desire by acquiring or experiencing as many finite goods as possible. But on Aquinas's account, because the finite good is analogically related to the infinite good, we best approach the infinite good not by maximizing finite goods, but rather by, like a mirror, reflecting the infinite good in a finite way. We realize such mirroring in striving for perfection, not maximization (ST, I-II, 1-5).

Think about how a finite universe can manifest the infinite unbounded transcendent good of God. There can be no one thing in a finite world that reflects God, so God created a universe with an array of qualitatively distinct beings that each carry with them some essential aspect of God's goodness (ST, I, 47, 1). An apple conveys applesness, which tells us one thing, while the orangeness of an orange something else. But because God is also one, these diverse heterogeneous beings are ordered to one another, weaving together the dense set of relationships that make a coherent universe, not a random scattering of atoms. The aim for the human, then, in constructing a good life, is not to accumulate as long a sequence of finite goods as possible, but rather to order the goods we find around ourselves well, into a unity that reflects the beauty of the good we seek. The painting of the tree best represents the tree not by an accumulation of more paint, but rather by a judicious arrangement of paint.

A second aspect of mirroring the infinite good is to note that we primarily do so through the perfection of our own beings. The apple is as close to God as it can get when it achieves perfection as an apple, and we are as close to God as we can get when we perfect ourselves as ourselves. So the principle we use to order our own goods in this life is to do so toward our own perfection, which is to say to our becoming excellent versions of ourselves. For Aquinas, excellence lies in the life of virtue, which on his account is the perfection of the various aspects of human nature (ST, I-II, 1-5). Thus temperance and fortitude perfect our passions—the raw desires and fears we share with animals—by bringing those passions into alignment with the discernments of reason. Justice perfects our will,



particularly with respect to our relations with others, an essential aspect of human life insofar as we are social animals. Finally, prudence is the master virtue, perfecting our practical reason by allowing us to judge how best to pursue the good in the particular circumstances in which we find ourselves (ST, I-II, 61, 1-5).<sup>7</sup> Prudence is thus the counterpart in Aquinas's thought to the rational choice model in economics—that is, it's his model of practical reason.

But notice how very different prudence is from rational choice. Prudence requires that we understand our aims in life as an affair of perfection, aiming at a finite mirroring of the infinite good rather than trying to approach it along some indefinite ladder of increasing quantities of goods. It requires that we respect the heterogeneous nature of the goods we find around us. While we can use prices to generate some idea of equivalence in exchange, that should never eclipse our sense that the goods of this life are not genuinely fungible. The exercise of prudence is far more a matter of art than of calculation, with the focus on ordering goods well, not on trading them off one against the other in some sort of calculation. Finally, prudence is holistic, discerning goods in light of the overall shape of a life in order to see how to order goods well—and thus it is undermined if we misidentify practical reason with a series of calculations on the margin (ST, II-II, 47-51).<sup>8</sup> It is in this account of prudence that the Thomistic account escapes the flatness that Klein associates with the economic approach. Decision is more about discernment than choice; human action is improperly directed if thought of exclusively as optimization; knowledge requires respect for heterogeneity and particularity and thus cannot be reduced to information; and so on.

An economist might reply: That's all well and good, but do people actually exercise practical reason in accordance with the dictates of Thomistic prudence? As it happens, if the question is simply a matter of how best to describe behavior, Aquinas ends up in accordance with economists. How? His account expands to incorporate the fact that most people are not particularly virtuous; Aquinas

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7. This is, of course, an abbreviated account of the cardinal virtues. There are three further theological virtues: faith, hope, and charity, but I bracket them from this account.

8. Readers familiar with Deirdre McCloskey's *The Bourgeois Virtues* (2006) will have noted that my usage of the term prudence is very far from her identification of prudence with Max U. Many of the important differences between Max U and Thomistic prudence are similar to the differences between Max U and Adam Smith's prudence as described by Lipka (2013). These include the notion that prudence involves discernment of goods and thus is not well-captured by the calculations of Max U with respect to well-defined ends. However, for Aquinas, unlike for Smith, prudence really is the master cardinal virtue—directing us towards a comprehensive end that orders the various goods we pursue. Thus it is not identified, as it might be in Smith, with narrow self-interest. The difference lies in how one understands the fact that we are perfecting our natures as social animals. Another way to get at the difference is simply to observe that for Aquinas (as also for Aristotle) there is a unity of the virtues, such that one cannot really progress in one virtue without having progressed in them all.

explicitly identifies a lower form of reason, which we share with the animals, which pursues an indefinite string of goods and proceeds primarily by weighing costs and benefits as measured by the untutored passions (ST, I-II, 30, 3-4). If that's right, then choices in aggregate may indeed be well described by some right set of rational choice models. That said, descriptions might be even better to the extent that we take into account that while many often operate out of the lower form of reason, some sometimes operate out of Thomistic prudence. And, indeed, economics seems to be moving in the direction of acknowledging the role the discernment of goods plays in decisionmaking, especially as mediated by social norms.

More importantly, economists underappreciate the 'normative' cast of much of their 'positive' science. Humans listen to the descriptions of human nature delivered by economics and are influenced by those descriptions. Most obviously this happens in economics courses, where the aim is to teach students to think like economists, which among other things can mean taking the rational choice framework as *the* framework of practical reasoning. To the extent that students internalize that framework, which Deirdre McCloskey aptly calls Max U, they will substitute a series of sequential decisions on the margin in a pursuit of an indefinite string of goods for the art of prudentially discerning the nature of goods and deliberating on how they are best ordered. It is not enough to say that economists are agnostic about what goods people should pursue—the *form* of the pursuit matters, and, unfortunately, economists are not agnostic about the form.

I've sketched Aquinas's views of the ends we pursue in human life and the form of practical reason suitable to that pursuit. Such views rest in metaphysical beliefs that are not universally held. But I do hope that this perspective can help raise questions that economists would do well to ponder. What exactly is the end of economic life? Is the end of such a form as conceived by economists—an indefinite string of finite goods rising up in a ladder towards higher utility—really a good way to think of human happiness?<sup>9</sup> How much is their view of human reason formed by their understanding of the form of the good, and what are the consequences of that entanglement? Is there a way to keep the economic view of the good without succumbing to the flattening that the Thomistic view avoids? Or is there a secular way of conceiving of happiness that does justice to the infinite nature of our desire while not reducing it to an indefinite quest for 'more'? Taking up such questions from philosophy or theology should help add dimensions to economic thought.

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9. The now-sprawling literature on happiness is probably a helpful move in this direction. But research on the causal factors influencing subjective reports of happiness are not substitutes for the old-fashioned philosophical inquiries into the nature of the good life. Thinking so would be another example of knowledge being flattened into information.

And a less flat economic discourse would surely better deliver the valuable insights economists do have on offer than does the present discourse.

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## About the Author



**Mary Hirschfeld** is assistant professor of economics and theology in the Humanities department of Villanova University. She earned her Ph.D. in economics at Harvard University in 1989 and her Ph.D. in theology at the University of Notre Dame in 2013. She is a fellow of the Dominican School of Philosophy and Theology, and she serves on the Board for the Program of Catholic Social Thought at the Lumen Christi Institute. Her email address is [mary.hirschfeld@villanova.edu](mailto:mary.hirschfeld@villanova.edu).

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# The Starry Heavens Above and the Moral Law Within: On the Flatness of Economics

Abbas Mirakhor<sup>1</sup>

[LINK TO ABSTRACT](#)

*Two things fill the mind with ever new and increasing admiration and awe... the starry heavens above me and the moral law within me.*

—Immanuel Kant (1956/1788, 166)

In a piece for *BusinessWeek* in March 2009, Shoshana Zuboff argued that the financial crisis was driven by a sense of “remoteness and thoughtlessness, compounded by a widespread abrogation of individual moral judgment.” She found Hannah Arendt’s formulation of the “banality of evil” an apt characterization of those who perpetrated the financial crimes. The “self-centered business model” allowed them to operate “without the usual feelings of empathy that alerts us to the pain of others and define us as humans” (Zuboff 2009). Joseph Stiglitz, too, raged against the “moral depravity” of those who engaged in financial practices that led to the crisis.<sup>2</sup> Did they not “have any moral compunction?” he asked (Stiglitz 2010). The Financial Crisis Inquiry Commission (2011, xxii) identified “systemic breakdown in accountability and ethics” as one of six causes of the crisis.

Even before the crisis Richard Holloway (1990) asserted that the “unfettering of the market” in the two prior decades had removed traditional restraints on markets. That in turn had unleashed greedy, self-centered, and self-interested behavior at the very core of contemporary society. Widespread “crime and unfair

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1. International Center for Education in Islamic Finance, 50050 Kuala Lumpur, Malaysia. Assistance of Alaa Alabed is gratefully acknowledged.

2. There is a general belief that only a very few predicted the crisis. Tobin (1984) warned of the emergence of a “paper economy,” and Amartya Sen of the potential adverse consequences and “harm” that the contemporary financial “behavior may cause to the public at large” (Sen 1991, 62). See also Dobson (1993); Shiller (2005); Argandoña (2012).

business practices committed at the kitchen table, on the settee and from desks and call centers, at cash points, in the supermarkets and restaurants, and in interaction with builders and trades people...by people who think themselves as respectable citizens” (Karstedt and Farrall 2007). Erosion in morality is not limited to market anomie. It is observed also in societies where the market does not have a dominant role (see Akinbo 2009).

There is a sense of moral panic regarding systemic assault upon human dignity, trust, contracts, and property. The latter constitute fundamental elements of the institutional infrastructure of societies, gluing social solidarity. How much responsibility and blame can be laid at the door of economics? Insofar as the discipline has detached itself from ethics to generate a “self-centered business model” (Zuboff 2009), with its “One-Dimensional”<sup>3</sup> man having reigned supreme across the world and across cultures, its “flatness” (Klein 2014) is the least intense of the charges against economics. While the call for economics to include ethical considerations has been voiced for decades (Sen 1987; see also Block, Brennan, and Elzinga 1985), economics continues to “be practiced in an ethical and moral vacuum” (Sfeir-Younis 2001).

What can religious or quasi-religious concepts and ideas do to enrich economics? They can energize the emergence of economics as the moral science its classical ancestors intended. At a minimum, the future generations of economists and financial practitioners would become alert that motives of self-love or self-interest need not exclude a feeling of empathy for others. Nor should serving self-interest allow an assault upon human dignity and personhood of others. Introduction into economics of ideas shared by all religions regarding the unity of mankind as well as crucial concepts of the right of every human to personhood, dignity, and freedom granted by the Creator would go a long way to unflatten conscience and consciousness.

In his introduction to this symposium, Daniel Klein (2014, 98) suggests that the Max U approach flattens “conscience to nothing.” In my view, professional economics produces a professional policy adviser who recommends, no doubt on efficiency grounds, that industrial countries should dump their nuclear waste in the developing world. Judging by the banality with which the profession reacted (see Heyne 2008, 2), the advice was “terribly and terrifyingly normal” (Zuboff 2009). Jungian analysis should not be needed to suggest that Adam Smith’s conception of universal benevolence requires a universal consciousness. Economics, it seems, flattens consciousness in all its dimensions except one: that of an egoist.<sup>4</sup>

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3. Borrowing from the title of the book by Herbert Marcuse (1964).

4. For challenges facing economics and economic theory see Fullbrook (2003); see also Lawson (1997) and Rubinstein (2006).

The view held by many inside and outside the profession is that the problem with economics is its model of man; the Max U approach robs the discipline of its ‘grand vision.’ A number of Adam Smith scholars see in the totality of his work a unified grand design (Oncken 1897; Evensky 1993; 2005; 2011; Otteson 2002; Khalil 2006; Kennedy 2008; Rose 2011).<sup>5</sup> *The Theory of Moral Sentiments* and *Lectures on Jurisprudence* provide the moral rules, the institutional scaffolding<sup>6</sup> within which the economy described by *The Wealth of Nations* is embedded.<sup>7</sup> It is compliance with the rules prescribed by the “Author of Nature” that assures balance in the economy.

Recoupling the economy with the ideas in *The Theory of Moral Sentiments* could help cure economics of its flatness. Research in various areas such as experimental, behavioral, cognitive, and evolutionary economics, as well as neuroeconomics, has produced evidence of the need to reform the “economic man” (see, e.g., Wilson 1998; Gintis et al. 2005; Altman 2006; Harman 2010; Bowles and Gintis 2011; V. Smith 2012; Gowdy et al. 2013; V. Smith and Wilson 2014). It is also heartening that the inclusion of social capital, alongside labor, physical capital, and human capital, is no longer questioned. One wonders how long it will take before “moral capital” is also introduced as another element of the production function.

Religions have much to contribute to righting the wrongs of economics by making available coherent and logically consistent alternative postulates and models.<sup>8</sup> In my own tradition, Islam, research has begun to define the grand vision within which the economy is embedded. Similar to the conjecture about Adam Smith’s unified theory, I believe that the Qur’an provides an explicit vision of an economy embedded in prescribed rules of behavior. Compliance with these rules assures sustainable development and growth (Mirakhor and Askari 2010; Iqbal and Mirakhor 2013).<sup>9</sup>

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5. Alvey (1999) traces the history of economics as a moral science down to Alfred Marshall. John Maynard Keynes, in a letter to Roy Harrod in 1938, wrote “I...want to emphasize strongly the point about economics being a moral science” (Keynes 1973, 300).

6. “Scaffolding” is used by Douglass North (1990) to signify the institutional infrastructure (rules of behavior and their enforcement characteristics) of an economy.

7. For an analysis of *Lectures on Jurisprudence* see MacCormick (1981).

8. Kenneth Arrow once asked: “Under what circumstances is it reasonable to expect a business firm to refrain from maximizing its profits because it will hurt others by doing so? What institutions can we expect to serve the function not merely of limiting profits but of limiting them in just those ways that will avoid harm to others? Is it reasonable to expect that ethical codes will arise or be created?” (Arrow 1973, 303). Religions have an additional challenge of explaining the contrary behavior of their followers—the famous problem of akrasia with which philosophers since Aristotle have had to grapple (see Kuran 1995).

9. The rules were operationalized by the Messenger during his lifetime. While the paucity of accurate historical accounts do not permit full analysis of the economic policies of the Messenger, there is enough information to provide an understanding of how the envisioned economy, and the market embedded in it, work.

Many of the concepts and ideas in Islam would enrich economics. These include its conception of property rights, a conception that empowers all humans to access Allah-created resources. Its property-rights rules provide a legislative basis for redistributive measures, as the redemption of the rights of the less able to income and wealth possessed by the more able. The claim of the less able remains valid throughout the production and exchange process and must be redeemed. Property-right rules as defined by Islam prohibit abuse, waste, and wanton destruction of resources. The environmental implications are clear.

Sharing is another major Islamic principle. It prohibits interest-based debt contracts (risk transfer) in favor of risk sharing. Such prohibition serves one of the desiderata of Islam: the unity of mankind as a corollary of the Unity of the Creator. Sharing the risks of life brings people together and leads to social solidarity (Askari et al. 2012). It is worth noting that Kenneth Arrow's theory of risk bearing (Arrow 1971) is essentially a theory of risk sharing in that it requires that the risks of the economy are allocated among participants in accordance with their "respective degree of risk tolerance" (Hellwig 1998, 330). In Arrow's model all assets are state contingent (no predetermined, fixed payoffs).<sup>10</sup> Risk sharing is an idea that could relieve human societies of the heavy burden of debt.

In the Islamic vision, the market occupies an important but subsidiary function in that participants have to internalize the moral rules of behavior before entering the market. Additional rules govern market operations, including free entry and exit, full disclosure of information, and transparency. Rules provide remedies for such problems as annulment of contracts in case of cheating, shortchanging through weights and measures, and asymmetric information. These rules embed the market in the economy and the economy in the society.

Religious ideas can help enrich economics. Discussion of religious and ethical ideas, and stock-taking among economists of all shades of belief, would be helpful. Post-crisis circumstances have created opportunity for more productive discussions than in the past.<sup>11</sup> If nothing else, inclusion in the profession of some form of Kant's Categorical Imperative (Laffont 1975), or the Golden Rule, would be helpful. At least economists could agree to do no harm.

In the longer term, one shares hope with Albert Hirschman that it may be "possible to visualize a kind of social science that would be very different from the one most of us have been practicing: a moral-social science where moral con-

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10. In the late 1960s and early 1970s was developed the foundation of not only equity derivatives but also debt derivatives. A case could be made that the latter innovation, accomplished in a short span of time, set the course of finance toward the crisis. Interestingly, in 1983 a bright graduate student argued the impossibility of the presence of a fixed, pre-determined, positive rate of interest in general equilibrium models (Cowen 1983).

11. For example, compare Block, Brennan, and Elzinga (1985) with Williams and Elliott (2010).



siderations are not repressed or kept apart, but are systematically commingled with analytic argument...where moral considerations need no longer be smuggled in surreptitiously, nor expressed unconsciously, but are displayed openly and disarmingly” (Hirschman 1981, 305-306).

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## About the Author



**Abbas Mirakhor** received his Ph.D. from Kansas State University in 1968. He taught at various universities until 1984, when he joined the Research Department of the International Monetary Fund. In 1990 he was elected to the Executive Board of the IMF where he served until retirement in 2008. Since 2010, he has been the First Holder of the Chair of Islamic Finance at the International Center for Education in Islamic Finance (INCEIF). His email address is [abbas@mirakhor.com](mailto:abbas@mirakhor.com).

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# On the Usefulness of a Flat Economics to the World of Faith

Andrew P. Morriss<sup>1</sup>

[LINK TO ABSTRACT](#)

In his introduction, Daniel Klein asks “Is economics suffering from an undue flatness?” and, if it does, whether “religious or quasi-religious formulations” might provide the needed depth (2014, 97). Klein joins some august company (Deirdre McCloskey, Vernon Smith) in concluding that there is too much flattening and proceeds to raise some provocative questions about the role religion might play in addressing the problem.

Before we get to whether religion can help, it will be helpful to consider the flatness. There is little question that economics flattens the perception of human nature and human existence. Focus is a good thing in solving problems. Occam’s razor is helpful, unless it eliminates key variables. A paper map is a flat representation of geographic data, yet its flatness is integral to its usefulness. The map is portable in a way that a ‘deeper’ representation is not. Deeper representations provide other useful functions. For example, in Guatemala City there is a city-block sized relief map of Guatemala, which provides a sense of the country’s geography not available from even the most detailed paper map marked with contour lines. But the relief map cannot be folded up and put in my pocket, and so it is less helpful in finding my way from Antigua to Chichicastenango than is the paper map. So flatness alone is not a problem—only what Klein terms *undue* flatness.

If we think about the degree of flatness as the result of a tradeoff between the costs and benefits of more detail, we’ll end up with different maps for different purposes. And flatness is really a multidimensional issue. Thus a highway map is flat in not representing a variety of things. It won’t tell me the religious preferences

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1. University of Alabama, Tuscaloosa, AL 35487. I thank William Brewbaker and Roger Meiners for helpful comments.

of the people in the area I am driving through or population density or the level of economic activity. The absence of such details could be either a feature (if I am driving from A to B, then I don't particularly care about them and they'd likely clutter my map) or a bug (if I am trying to find a place to live).

## Undue flatness?

To what extent is economics unduly flat? Compared to the Christian conception of human nature, what McCloskey (2006, 135) terms “Max U” is certainly flatter. Is it unduly so? It is true that for Christians utility ought not to be just about material wealth. As Proverbs 30:8 puts it: “Remove far from me vanity and lies: give me neither poverty nor riches; feed me with food convenient for me.” That attitude is not what immediately comes to mind when I think of Max U, although one could play with utility functions to incorporate it. But that acknowledgment does not mean that a utility maximization model is unduly flat; it rather depends on what we are trying to accomplish. If the goal is a mathematical model, Max U's flatness offers significant benefits. The flatness allows us to see the question being modeled more clearly in at least some cases. Of course, not all (or perhaps even many) models are useful, so relentlessly applying Max U is not always going to yield benefits that are worth the cost. But so long as we remember that models are tools rather than reality, some models are useful. Indeed, one of the strengths of McCloskey's *Bourgeois Dignity* (2010) is that she deploys economic tools effectively to make the point that a step beyond just economics is needed to explain the Industrial Revolution (see Morriss 2010).

Most of the relatively flat models deployed by economists are not, of course, used to show the limitations of economics; instead they are applied, and helpfully so, to an array of questions. For example, the economics of religion literature offers the insight that more demanding denominations are more successful than less demanding ones. The more demanding denominations, such as those that want their members to fast on holy days or give up dancing, raise the average intensity of belief among members by requiring practices that are less costly for believers than for skeptics. A higher average intensity makes participating in the religion more rewarding for members. As Laurence Iannaccone (1998, 1482) puts it, “the pleasure and edification that I derive from a worship service does not depend solely on what I bring to the service (through my presence, attentiveness, public singing, and so forth); it also depends on how many other people attend, how warmly they greet me, how well they sing, how enthusiastically they read and pray, how deep their commitment, and so forth.” As Iannaccone notes, enriching the “religious production function” and focusing attention on modeling religion as a

specialized firm or club, rather than focusing on a simple model of personal utility maximization, can enhance understanding of the institutions (*ibid.*, 1479-1485). But there is nothing particularly ‘religious’ about modeling religion as a club, other than the greater understanding of how religion affects participants that comes from understanding religion itself. I don’t think Iannaccone is making economics less flat; I think he’s just found different terrain to map.

Similarly, Roger Finke and Rodney Stark (2005) explain the relative successes of Baptists, Congregationalists, Episcopalians, and Methodists in nineteenth century America by examining the incentive structure facing the clergy in each. In short, Methodist circuit riders were highly incentivized to deliver a good experience because they wanted someone to invite them home afterward for dinner and a place to stay, and Baptist preachers needed people in pews to put money in the collection plate to fund the church and pay their salaries. Meanwhile, Congregationalists and Episcopalians had state support and endowments that disconnected their rewards from their efforts. Again, I don’t see this as a move away from flat modeling, just mapping a different space.

That all this is useful is demonstrated by the reaction of the clergy from a variety of Christian denominations at a conference I organized around this literature. The participants found these insights exciting. While I have no doubt that concepts like those which Klein describes in his introduction (coherence, larger purpose, and universal benevolence) could prove useful, readings based on a pretty flat utility function and that did not take such things into account provided ideas that sparked a rich and interesting discussion with relevance to both economists and clergy.

## **Is something missing from economics?**

Economics’ power comes in part from its ability to explain a great deal with a remarkably simple model of human motivation. An important part of that power rests on the testability of hypotheses generated by the model. The best parts of my graduate education in economics at MIT were my labor economics and industrial organization classes, in which a series of superb economists (Henry Farber, Robert Gibbons, Paul Joskow, Thomas Lemieux, Michael Piore, and Jean Tirole) took us through models and tests of hypotheses in various papers. Farber’s dissecting of the methodologies of quantitative papers in labor economics, Piore’s combination of qualitative and quantitative insights into labor markets, and Joskow and Tirole’s team-taught IO course mixing game theory and econometric evidence were particular highlights. If anything made me a believer in the methods of economics, it was those classes.

But the simplicity of the Max U approach can also mislead. For example, Benoit Mandelbrot and Richard Hudson's *The (Mis)Behavior of Markets: A Fractal View of Financial Turbulence* makes a compelling case that much of modern finance is built on a set of incorrect assumptions about the distribution of price changes in financial markets. If they are correct, and they make a persuasive case that they are, then this is undue flatness. Why haven't the theories been improved based on empirical evidence to the contrary? Mandelbrot and Hudson offer a disturbing explanation:

Habit and convenience. The math is, at bottom, easy and can be made to look impressive, inscrutable to all but the rocket scientist. Business schools around the world keep teaching it. They have trained thousands of financial officers, thousands of investment advisors. In fact, as most of these graduates learn from subsequent experience, it does not work as advertised; and they develop myriad ad hoc improvements, adjustments, and accommodations to get their jobs done. But still, it gives a comforting impression of precision and competence. (Mandelbrot and Hudson 2006, 105)

Although Mandelbrot and Hudson don't use the terminology, this is just turning the lens of public choice theory on ourselves. The results are as unflattering as they are when we use it to understand politicians and bureaucrats.

## Does faith add to economics?

So there is certainly plenty missing from modern economics. But can we add things in without losing more than we gain? Klein asks in his introduction whether there is something that our faiths bring to economic thinking that is lacking or even precluded by mainstream economics. I don't think that there is. I do find that much of religious thinking about economics is horribly confused. But the problem is more that writers on religious doctrine have failed to understand the economics than that the economics is hampered by a lack of religious tools.

Fr. Michael Butler is a close friend of mine and the Orthodox priest who led my family into the Church. When I collaborated with him on a monograph (Butler and Morriss 2013) jointly informed by economics and our faith, I was pleased at how few obstacles we found to integrating the two. Since Orthodox theology lies at the more mystical end of the spectrum of Christian theology, I believe our ability to reconcile (or at least simultaneously make use of) the faith with economics offers some strong evidence of the lack of a more general problem. For example,



Orthodox Christianity has a clear understanding of the fallen nature of man, and that should inform our choice of methods with which to address social problems. As we argue, “man’s fallen nature should make us wary of centralizing power in the hands of government officials who are not exempt from that fallen nature” (ibid., 73). At the same time, in one of Orthodoxy’s most central prayers, the Jesus Prayer, we pray repeatedly “Lord Jesus Christ, have mercy on me, the sinner.” And a consistent refrain in virtually all Orthodox services is the refrain: “Lord have mercy.” This conception of human nature as fallen and in need of mercy is entirely consistent with the economic conception of humans as motivated by self-interest. There may be interesting cases to model of people with richer utility functions that include universal benevolence, but we get surprisingly far in understanding and predicting behavior with the quite flat assumption of self-interested individuals. So I see no inconsistency between my faith and my economics.

Does my faith add something to my economics? I find that religious ideas help me to understand economics. Robert Nelson has used theological concepts to great effect in explaining differences among economists (Nelson 1993; 2002) and between economists and environmentalists (Nelson 2010). And having converted to Orthodoxy after converting to economics, I can certainly say that my faith adds a great deal to my life, filling a gap that economics cannot. It has also opened areas of inquiry that I have just begun to explore and which may in time yield results in my life as an economist. One example is thinking about the evolution of the doctrines within the institutions of the Orthodox faith, as compared to the evolution of doctrine within Catholic and Protestant institutions. Orthodoxy is more hierarchical than most Protestant denominations but lacks the single central authority of Catholicism. Do the different institutional structures explain the differences in doctrinal evolution? I suspect they play a role, and that helps me make sense of the different paths of Catholicism and Orthodoxy since 1054. Did the experience of Western Europe’s myriad competing political jurisdictions contribute to the fracturing of western Christianity into myriad doctrinal congregations, by incentivizing rulers to accept and support doctrinal innovations, while the long periods of political stability in Orthodox lands (Byzantium, imperial Russia, the Ottomans) lacked those incentives? Again, I suspect so.

An unflattering (to my church) example of how economics and faith might interact to provide explanatory power is the relationship between church and state in Orthodox countries. Greece, Romania, Russia, and Serbia do not top lists of well-governed nations through history. Recently, monks of the Vatopaidi monastery on Mount Athos, an extremely holy place in Orthodoxy, appear to have been involved in some at-best questionable financial dealings with the Greek state (Lewis 2010). One reason for such problems might be the Orthodox conception of *symphonia* as the organizational principle for church-state relations, a conception

that poses practical issues for anyone with even a passing acquaintance with public choice theory. These issues are worth exploring using an understanding of both the faith and economic theory.

So perhaps the better question is “does economics add something to religious faith?” I think the answer is unambiguously “yes.” Man’s fallen nature makes it good for humanity that we do not depend on the benevolence of butchers and bakers for our meat and bread. As F. A. Hayek notes,

it is one of the necessary conditions of the extension of human co-operation beyond the limits of individual awareness that the range of such pursuits be increasingly governed not by shared purposes but by abstract rules of conduct whose observance brings it about that we more and more serve the needs of people whom we do not know and find out needs similarly satisfied by unknown persons. (Hayek 1988, 112)

Honest market exchange is a good thing. A merciful God has not left us dependent on others’ benevolence, even as He continues to hope we will show the mercy to others that we seek from Him. Nor does embracing market exchange absolve us of the requirement to serve our brothers and sisters; rather it enables us to do so in new ways by freeing us from the drudgery of existence in the Malthusian trap where humanity labored before the Industrial Revolution. I view the twelvefold increase in well-being that revolution unleashed as akin to the master entrusting great wealth to his servants in the Parable of the Talents (Luke 19:12-27). With more, we are called to do more. And, as Fr. Robert Sirico (2000) of the Acton Institute has noted, God has given us the incredible opportunity to join Him in the exhilarating process of Creation by providing us with opportunities to do so in the business world. Fortunately, even those who don’t answer that call for religious reasons still produce benefits for others by engaging in honest productive activities in search of material rewards. But I think it is more likely that the relatively flat world of economics can provide value to the less flat world of faith than the reverse.

## Conclusion

Economics has a great deal to offer precisely because it has a remarkably clear, simple model of human behavior that allows us to formulate testable hypotheses about the world. Yet turning everything into maximizing behavior does threaten to make economics tautological and uninteresting. Expanding the scope of understanding makes the job more difficult but also more interesting. The

challenge is to balance the power of the model against the potential of greater complexity.

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## About the Author



**Andrew Morriss** is the D. Paul Jones, Jr. & Charlene A. Jones Chairholder in Law and Professor of Business, University of Alabama. He earned an A.B. from Princeton, a J.D. and an M.Pub.Aff. from the University of Texas at Austin, and a Ph.D. (Economics) from M.I.T. He is the author or coauthor of more than 60 law review articles and book chapters. Effective July 1, 2014, he will be the dean of the Texas A&M School of Law. His email address is andy dot morriss at gmail

dot com.

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# What Has Jerusalem to Do with Chicago (or Cambridge)? Why Economics Needs an Infusion of Religious Formulations

Edd Noell<sup>1</sup>

[LINK TO ABSTRACT](#)

“What indeed has Athens to do with Jerusalem?” asked the early church apologist Tertullian (1870), concerned about the influence of Greek philosophical preconceptions on the Christian faith in the third century. In keeping with the theme of the prologue to this symposium, one might invert the question and ask “What has Jerusalem to do with Chicago (or Cambridge)?” I affirm that more than a mere connection ought to be made between religious thinking and economics, for professional economics would benefit from an infusion of Christian formulations. Particular concepts derived from the Christian Scriptures, specifically the notions that all humans are made in God’s image, and are fallen creatures, find beneficial infusion into economics. This infusing would lead economics to more openly recognize the role of moral reflection in economic thinking and enhance the way in which economics conceives of the use of knowledge in both the private and public sectors. I describe the benefits that might be realized in rethinking conceptions of entrepreneurship and competition as well as those beginning to be realized in analyzing opportunistic behavior. The essay closes with examples of the ways Christian values shape my research agenda as an economist.

Judaism and Christianity alike emphasize the importance of the concept of creation for understanding of economic behavior. Each form of theism empha-

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1. Westmont College, Santa Barbara, CA 93108.

sizes the Scriptural notion of all humans being created in God's image (the *imago dei*). As Rabbi (and philosopher) Jonathan Sacks notes, what was new in this concept in the ancient Near East was not the notion of *a* human being made in the image of God "but that *every* human being is" (Sacks 2005, 92, emphasis in original). While theologians and Biblical commentators to some degree debate the precise meaning of the *imago dei*, virtually all agree that it includes the concept of humans being granted a certain dignity as God's representatives so that they are enabled to rule and organize resources in the created world to flourish under God's design (Waltke 2007, 218-221). From this notion it may be inferred that any barrier that inhibits the creative expression of this royal dignity in line with God's purpose for creation should be eliminated. The first few chapters of Genesis provide both instruction for human ordering of resources and examples of early efforts at 'civilizing' the social order toward the purpose of human flourishing under God's rule. From its origins, economic activity is purposeful and is grounded in moral reflection on achieving the ends given by the Creator (Halteman and Noell 2012).

Modern economics ostensibly aims to relegate thinking about the proper ends of economic action to the 'normative sphere' while seeing the practice of economic science as a value-free endeavor in the 'positive sphere.' Yet one finds that in discussions of economic theory and policy the moral ends of economic action are unavoidable. Economists as ideologically diverse as Ludwig von Mises and Amartya Sen affirm the desired end of economic activity to be the promotion of the longevity of life, health and well-being of individuals and their friends and family (Mises 1960, 38; Sen 1999, 3-7). Modern economics would benefit from explicit recognition that humans being made in God's image are invariably directed to moral reflection about the ends of economic activity. That reflection involves not merely information about resource availability, but also includes accumulated wisdom through the experience of social interaction and the tapping of one's instincts. Such formulations would suggest we address the flatness of the economics of information by speaking more broadly about human *knowledge* put to use to serve the ends of the Creator, including loving God and loving one's neighbor as one's self (Matthew 22).

Since humans are creatures, our knowledge is inherently limited. As population grows so does knowledge. Differing skills and abilities lead to specialized human capital as each person expresses his or her *imago dei* by realizing productivity, leading to trade. Individuals, groups, and nations find comparative advantages but still only operate with imperfect knowledge. Human plans to initiate ways to create wealth inherently face uncertainty. The Scriptures affirm God alone is omniscient; prospective demand and cost conditions are unknown. The wise steward or entrepreneur still must count the costs, as Jesus declares in Luke 14. Such ac-

counting inherently involves a forecast of economic conditions offered under the constraint of creaturely limitations. Here, outside of mainstream economics, the Austrian contribution rightly emphasizes that any entrepreneur must make a calculation of costs that is prospective, anticipating costs associated with decisions, and not merely accounting for costs associated with events.

Drawing upon the significance of creation would lead to more complete recognition of the role of entrepreneurship and a more nuanced understanding of competition in much of professional economics. The entrepreneur made in God's image acts with a royal dignity about her or his creative enterprise that even Joseph Schumpeter (1942), for all of his insight into the passion and purposiveness of entrepreneurship, fails to capture. Entrepreneurial activity is an expression of creativity, yet it faces limits. Operating under human finitude in appraising returns, entrepreneurs find that profits don't often present themselves as known values, simply waiting to be plucked by risk-takers much like low-hanging fruit. Given that knowledge about specific technologies and market opportunities is uniquely held by particular individuals, it seems evident that profit opportunities are better thought of as 'uncaptured gains.' That is, they reflect unrealized opportunities that have to be discovered by an entrepreneur who acquires knowledge of them that is not yet reflected in the market price of the relevant resource or product. Individual entrepreneurs capture these profits by "acting upon the discrepancies that may exist between their own knowledge and the knowledge available in the marketplace" (Boettke 2012, 223). Entrepreneurs who fail to discern or act upon these opportunities wind up underestimating costs or overestimating revenues, and thus they face losses.

It is through the action of entrepreneurs in competition for these 'uncaptured gains' that prices direct resources to their most valued use. Prices do so because they convey otherwise tacit knowledge about trading opportunities and provide incentives to act on those opportunities (Boettke 2012). In contrast, government officials in regulatory agencies can't draw on this tacit knowledge in expending public resources, limiting entry into occupations, setting tariffs, and controlling prices. In addition, when acting upon this more severely constrained knowledge, they face a different set of incentives, for when they create social losses they often don't bear the burden directly.

The other concept shared by Judaism and Christianity is the consequences of rebellion by humans against God, identified in theological terms as 'the fall' into sin. The fall brings disharmony in relationships between God and man and among humans themselves as self-interest can become narrowed to selfishness. In the marketplace, the fall accentuates the problem of asymmetric knowledge by generating significant differences in interpretation held and conveyed by market participants. Indeed, some Christian economists suggest that unrestrained market

activity occasions the pervasive presence of sin and economic disharmony, not the socially beneficial results of an invisible hand (Vickers 1976). Such disharmony is said to be remedied by governmental regulatory efforts.

Yet it is evident that such governmental efforts are not immune from the impact of the fall either. Regulators often act out of self-interested motives and their actions as civil servants are not checked by the forces of market competition. Medicines that could save lives are withheld for unnecessarily long periods by regulatory agencies desiring testing. Tariffs are imposed, discouraging innovations by firms as they are sheltered from foreign competition. Whether one thinks of agencies charged with oversight of price and wage levels, output, or production quality in particular industries, or of broader efforts aimed at managing national production levels, there are no guarantees that regulatory solutions are superior to market outcomes. The public choice literature is full of examples of the actions and inactions of elected officials and regulators failing to improve the economic well-being of the public. Some Christian economists thus point to the superiority of relying upon the price system in directing resources to their most highly valued uses. Flawed though it is due to the impact of the fall, the price system is better in this regard as compared to regulatory direction (Claar 2012; Klay and Lunn 2003; Hill 1987).<sup>2</sup>

The fall into sin mars God's image in humans but doesn't erase it. Even after the fall, we find examples of creative innovation, with the fashioning of tools, building of cities, and expression of music and the arts (Genesis 4). Economic growth proceeds. Nonetheless, it is evident that sin impacts economic transactions through choices driven by greed or envy.<sup>3</sup> Opportunistic behavior in the form of fraud or deceit can mar the performance of product, labor, and loanable funds markets. Mainstream economics assumes that individuals are self-interested, but often also, if only implicitly, honest. Individuals consent to a contractual arrangement that they presume each agent will fulfill their responsibility towards. As Gerald Brock puts it, in the mainstream view individuals are presumed to have "all carried out their contracts without coercion or arguments about what the contract required or what state of the world had occurred" (2002, 4). The recognition of fallen human nature leads one to surmise that individuals may "refuse to honor contracts for future services if changing conditions made it in their interest to

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2. Certainly there are many further considerations here (not discussed for brevity's sake) including principal-agent relationships, intergenerational exchange, and the issues surrounding negative externalities and pecuniary externalities as addressed by property-rights based solutions, governmental taxation, or regulatory-based approaches.

3. Two studies deserve recognition for offering work on the economics of sin. Relying upon a rational choice model, Cameron (2002) offers a significant introduction and analysis of dimensions of sinful behavior; Sedlacek (2011) addresses debt and the forgiveness of sins.



renege on earlier promises” (ibid.). They engage in a form of opportunism that raises the transactions costs associated with market behavior. People are willing to take advantage of each other in both product markets, by failing to deliver goods or services, and labor markets, as when employees shirk or when employers break promises.

Here one finds evidence of at least implicit infusion of Christian thinking about the economic implications of the fall in economic research on opportunism, the phenomenon that occurs most often when there are unclear ‘rules of the game.’<sup>4</sup> Individual citizens (and sometimes their government) take advantage of another person or group by misleading them or limiting their ability to fully bargain or compete. There is a legacy of Christian thinking going back to the Scholastics (and influencing Adam Smith) about the likely presence of economic compulsion in such arrangements found in labor markets (Noell 2006) and in other markets as well (Barrera 2005; 2013).

At this point it would perhaps be helpful to include some personal reflection on the impact on my work as an economist of Christian teaching on creation and the fall. Recognizing that the Bible is not in any manner a textbook on economics, along with other Christian economists I nonetheless am guided by Scriptural values that shape my scholarship. These priorities are manifested in chosen fields of economic research, formulation of research questions, and evaluation of particular policy proposals, as Christian economist Judy Dean (2005) suggests. We wish to consider ways to improve the well-being of those at the economic margin of society, among whom are the widow, orphan, sojourner and destitute poor depicted in the Scriptures. Christian economists also value ‘creation care’ and explore issues of environmental degradation. For example, my own research with fellow Christian economists (Noell, Smith, and Webb 2013) explores how the case for economic growth must be made on both economic and moral grounds in light of concerns about resource depletion and income inequality.

Jesus’s teaching in the Gospels concerning wealth and poverty (Luke 12 and 19-20) and the condemnation of theft and deceit in the Decalogue (Exodus 20) are particularly relevant for questions of economic development. They lend focus to research on economic institutions such as property rights and exchange arrangements. For example, there is continuing research on the connections between the extent of poverty and the security of property rights in developing economies. Property rights are often insecure because the state randomly overrides them, or implements licensing barriers limiting entry into numerous occupations. For Christian economists, clear and stable property rights and open markets backed by consistent government rules are not merely about control over physical

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4. Richardson (2014) reviews the literature on coercion and offers examples of prospective contributions.

items. They are also significantly linked to human dignity and ingenuity, being tied up with a person's "capacity to apply his intellect to matter and ideas, to look ahead, to plan and steward" the use of their possessions and human capital in the pursuit of entrepreneurial opportunities (Sirico 2012, 31). Policy prescriptions to raise the opportunities and incomes of the poorest societal members in a sustainable fashion would be evaluated in this light by Christian economists.

Likewise, Christian economists seek to address the private practice of coercion, which may be particularly acute in a developing economy. Here governments have a key role to play in enforcing contracts impartially when disputes arise. When government does not play this role, one finds that trust is eroded, raising transaction costs and inhibiting opportunities for mutually beneficial transactions. Christian economists would evaluate the degree to which government policies encourage transparency and accountability in exchange arrangements.

Given the constraints of this essay, I have confined my remarks to a few economic fields for application of a couple of central concepts to show the relevance of Jerusalem for Chicago and Cambridge. There are clearly other research areas, including monetary economics, labor economics, game theory, and public finance, where religious formulations from the Christian Scriptures and tradition are making contributions to economic thinking.<sup>5</sup> I encourage economists to recognize both the significant frontiers for application of these concepts and the humility we must have in making policy prescriptions regarding the policy issues involved.

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5. See recent issues of *Faith and Economics*, the bi-annual journal published by the Association of Christian Economists, for examples of such research. In addition, Hay (1989) and the articles by Hawtrey (2003) and Richardson (2003) are particularly helpful in reflecting on the implications for economics of the concept of redemption as well as creation and fall and offering wide-ranging applications. Oslington (2003, vol. I) provides numerous helpful essays tracing the historical relationships between Christianity and economics.

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## About the Author



**Edd Noell** is Professor of Economics at Westmont College. His most recent publications include *Reckoning With Markets: Moral Reflection in Economics* (with James Halteman, Oxford University Press, 2012) and *Economic Growth: Unleashing the Potential of Human Flourishing* (with Stephen L. S. Smith and Bruce G. Webb, AEI, 2013). Dr. Noell serves on the editorial board of *Faith and Economics*, the journal sponsored by the Association of Christian Economists. His current research focuses on the evolution of Christian conceptions of usury, the just price, and legitimate economic gain for a book series titled *Reclaiming the Christian Intellectual Tradition*. His email address is [noell@westmont.edu](mailto:noell@westmont.edu).

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## Maximization Is Fine— But Based on What Assumptions?

Eric B. Rasmusen<sup>1</sup>

[LINK TO ABSTRACT](#)

I am a Christian from a general Protestant upbringing who attends a fundamentalist Calvinist church unaffiliated with any denomination. My doctorate is from the MIT Economics department of 1984 and I am a product of the modern synthesis of MIT's relentless maximization-subject-to-constraints with Chicago's Beckerian imperialism and skepticism of government intervention. Given that combination, what would I say about flat methodology, religion, and economics? Pause for a moment, and perhaps you can make a prediction.

Economics does ignore much of human motivation. In particular, it leaves out man's sense of right and wrong and his yearning for what is beyond the mundane. People worry about more than direct consumption, and even in consuming they disbelieve Jeremy Bentham's claim that "push-pin is of equal value with...poetry" (1830, 206), at the same time as many admit they derive more pleasure from push-pin. "Man does *not* strive after happiness; only the Englishman does," said Friedrich Nietzsche (1968/1889, 23), a criticism more of economists than Englishmen.<sup>2</sup> Nietzsche's target was utilitarians such as Bentham and J. S. Mill, and, more generally, the bourgeois viewpoint that generated the science of economics.

Long before Bentham, however, the idea of happiness as the highest human goal was fundamental for major Christian authorities, who took happiness as the *summum bonum*. Thomas Aquinas, described by Pope Leo XIII (1879) as the chief

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1. Indiana University, Bloomington, IN 47405. I would like to thank Michael Baye, Timothy Bayly, Margaret Brinig, and Christopher Connell for helpful comments.

2. The first, less known part of that aphorism is "If we have our own why in life, we shall get along with almost any how."

and master of all Scholastic doctors, said: “All men agree in desiring the last end, which is happiness” (Aquinas, *Summa*, II-I, 1, 7). Why then do men disagree so much?

For imperfect happiness, such as can be had in this life, external goods are necessary, not as belonging to the essence of happiness, but by serving as instruments to happiness, which consists in an operation of virtue, as stated in *Ethic.* i, 13. For man needs in this life, the necessities of the body, both for the operation of contemplative virtue, and for the operation of active virtue, for which latter he needs also many other things by means of which to perform its operations. On the other hand, such goods as these are nowise necessary for perfect Happiness, which consists in seeing God. (Aquinas, *Summa*, II-I, 4, 7)<sup>3</sup>

Blaise Pascal was a less mainstream Roman Catholic (a Jansenist, Rome condemned his movement as crypto-Protestant) but he agreed with Aquinas on this point:

All men seek happiness.<sup>4</sup> This is without exception. Whatever different means they employ, they all tend to this end. The cause of some going to war, and of others avoiding it, is the same desire in both, attended with different views. The will never takes the least step but to this object. This is the motive of every action of every man, even of those who hang themselves. (Pascal 1989/1669, §425)

Genuine Protestants also agreed with Aquinas. Richard Hooker says in his Church of England classic, *Of the Laws of Ecclesiastical Polity*, that “All men desire to lead in this world a happy life. That life is led most happily, wherein all virtue is exercised without impediment or let” (Hooker 1868/1594, 51). Jonathan Edwards, a Puritan who vehemently disagreed with Hooker on ecclesiology, said in a 1738 sermon:

That a man should love his own happiness, is as necessary to his nature as the faculty of the will is; and it is impossible that such a love should

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3. The Latin word used by Aquinas (and Augustine, below) is *beatitudinis*, not *gaudium* or *felicitas*; all are conventionally translated as “happiness” but have different shades of meaning. Aquinas is quoting and following Aristotle’s *Ethics*, which similarly makes happiness the goal and virtue an instrument. The Greek equivalent is *eudaimonia*, εὐδαιμονία, which means something like ‘long-term happiness’ as opposed to ‘pleasure’ or ‘sudden joy,’ a usage established long before Aristotle’s time (see Lauriola 2006 for discussion of the word’s use in Greek poetry).

4. The word translated as “happy” is “*heureux*”: “*Tous les hommes recherchent d’être heureux.*”

be destroyed in any other way than by destroying his being. The saints love their own happiness. Yea, those that are perfect in happiness, the saints and angels in heaven, love their own happiness; otherwise that happiness which God hath given them, would be no happiness to them; for that which any one does not love, he cannot enjoy any happiness in. (Edwards 1852, 229-230)

Thus, Thomists, Jansenists, Anglicans, and Calvinists agreed with economics in putting utility maximization at the center of human psychology, in contrast to the ‘rights’ system of ethics or the view of human behavior as driven by unconscious urges. Like Aristotle’s, theirs is a ‘eudaemonist’ ethics. As Sigbjørn Sønnesyn says,

In contrast to eudaemonist systems, deontological ethics are based on an account of rightness and duty divested from any account of the good; its proponents hold as the duty of a moral subject to act rightly without consideration of his or her own happiness. Today such an ethical paradigm is usually associated above all with Kant... (Sønnesyn 2008, 2)

Indeed, St. Augustine makes us think exactly of economists in his chapter, “The Will To Possess Blessedness Is One in All, but the Variety of Wills Is Very Great concerning that Blessedness Itself” (Augustine, “On the Holy Trinity”, book XIII, ch. 4). For a joke, a certain comic actor told his audience that he would reveal to them the secret of life. Augustine says that the actor:

...promised that he would say in the theatre, in some other play, what all had in their minds, and what all willed; and when a still greater crowd had come together on the day appointed, with great expectation, all being in suspense and silent, is affirmed to have said: You will to buy cheap, and sell dear. And mean actor though he was, yet all in his words recognized what themselves were conscious of, and applauded him with wonderful goodwill, for saying before the eyes of all what was confessedly true, yet what no one looked for. (ibid., book XIII, ch. 3)

Why, then, isn’t everyone Christian, if seeing God is the source of happiness? The theologian’s reason is the same as the economist’s: imperfect information and poor information processing lead to market failure. “Those who sin turn from that in which their last end really consists: but they do not turn away from the intention of the last end, which intention they mistakenly seek in other things,” as Aquinas puts it (*Summa*, II-I, 1, 7). People do not understand what is good for them.

Attributing wrong living to wrong thinking is not specifically Christian. Augustine quotes Cicero on the mistakes of the uneducated consumer of life:

For he [Cicero] says: “But, behold! people who are not indeed philosophers, but who yet are prompt to dispute, say that all are blessed, whoever live as they will;” which is what we mean by, as pleases each. But by and by he has subjoined: “But this is indeed false. For to will what is not fitting, is itself most miserable; neither is it so miserable not to obtain what one wills, as to will to obtain what one ought not.” Most excellently and altogether most truly does he speak. (Augustine, “On the Holy Trinity”, book XIII, ch. 5)

The Christian explanation for sinful activity is thus the defectiveness of human reason caused by rejection of God. As Pascal says:

[God] only is our true good, and since we have forsaken Him, it is a strange thing that there is nothing in nature *which has not been serviceable in taking His place*,<sup>5</sup> the stars, the heavens, earth, the elements, plants, cabbages, leeks, animals, insects, calves, serpents, fever, pestilence, war, famine, vices, adultery, incest.

Some seek good in authority, others in scientific research, others in pleasure. Others, who are in fact nearer the truth, have considered it necessary that the universal good, which all men desire, should not consist in any of the particular things which can only be possessed by one man, and which, when shared, afflict their possessor more by the want of the part he has not, than they please him by the possession of what he has. (Pascal 1989/1669, §425)

The solution is conversion and repentance, or, in economic terms, better information and elimination of bias in information processing. These improvements eliminate market failure. In the sermon quoted earlier, Jonathan Edwards puts it this way:

The change that takes place in a man, when he is converted and sanctified, is not that his love for happiness is diminished, but only that it is regulated with respect to its exercises and influence, and the courses and objects it leads to. . . .

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5. A better translation might be “*which has not been capable of taking His place*”; the original is “Et depuis qu'il l'a quitté c'est une chose étrange qu'il n'y a rien dans la nature *qui n'ait été capable de lui en tenir la place*.”



When God brings a soul out of a miserable state and condition into a happy state, by conversion, he gives him happiness that before he had not, but he does not at the same time take away some of his love of happiness. (Edwards 1852, 232)

So where is the key difference between theologians and economists? It is true, as the Prologue of this symposium says (Klein 2014), that economists flatten action down to optimization, decision to choice, knowledge to information, motivation to incentive, and discovery to search. Those things, plus how markets work, are what give modern economics its punch; they do comprise an ‘organon’ that organizes research (Klein 2014, 99). If, as the Prologue suggests, economics is to be infused with something from religion, what economics needs is not “religious formulations” but religious *assumptions*, along with certain rhetorical *tools* of scholarship that seem out of keeping with the mathematical precision that entered economics in the 1950s.

Let me defer religious assumptions and begin with these other tools. Looking back, you’ll see that I’ve made use of quotation, authority, anecdote, and humor. “Quotation” is in part just the presentation of evidence, e.g., the words that Aquinas actually wrote as evidence of his views. That is data in the same sense as is a table of numbers. A second use of quotation is to give the reader words which express an idea unusually well.

“Authority” is a tool closely related to quotation. Not only are the quoted words apt, but in some cases (Aquinas, if not, perhaps, Sønnesyn) they are the words of someone we think wise enough that they could contain more meaning than the quoter—me—might be able to paraphrase.

“Anecdote” is exemplified by St. Augustine’s story of the comic actor. Augustine could have gotten roughly the same information across in fewer words without mentioning the comic and his audience’s suspense, but that would not hit as hard and we would not remember the idea as well.

“Humor,” too, is illustrated by that story. Humor is a welcome relief from the heavy mental concentration one needs in reading technical works of theology. The reader of mathematical economics could use similar relief, though jokes are all too rare in mathematical economics (as, indeed, they usually are in theology; Augustine, unlike Aquinas, was a trained rhetorician).

These techniques, along with metaphor, poetry, and allegory, are felt (not *considered*—*felt*, I think) by many of us to be unmodern, unscientific, and unprofessional. At the highest level of the profession, though, these tools have yielded spectacular successes. Think of Albert Tucker’s two prisoners (see Tucker 1980), Paul Samuelson’s chocolates (Samuelson 1958), Amartya Sen’s porn-reading Prude and Lewd (Sen 1970), and Peter Diamond’s coconuts (Diamond 1982). I wish we

economists felt freer to use rhetorical tools wherever they would add accuracy, even if they reduced precision.

But let us return to the matter of religious assumptions. Christianity, Judaism, and Islam are religions based in assertions of fact.<sup>6</sup> To be Christian, you must believe that Jesus rose from the dead. To be Jewish, you must believe that God gave Moses the Law. To be Muslim, you must believe that God gave Mohammed the Koran.<sup>7</sup> Each of these three things either happened or did not happen. Religions are divided by which religious assumptions the religion holds to be true. Jesus either did or did not rise from the dead, though of course one may also take an agnostic position.

From religious assumptions flow positive and normative implications.<sup>8</sup> The Christian authors quoted above believe that people maximize happiness, but they also believe that people are wrong in the way they go about it. Thus, their policy recommendations would not be the same as the atheist's.

Economists are used to investigating what flows from a given set of assumptions, so it should be routine for us to accept religious assumptions and see what results they give us. To do so, one does not need to believe the assumptions, and the analysis can be intellectually interesting even if one believes the assumptions are false. I, a Christian, could use my economics tool kit to clarify how one should use the Talmud to decide how much a seller should have to tell a buyer about product quality; Aaron Levine's *Economics and Jewish Law: Halakhic Perspectives* is fascinating whether you are Orthodox Jewish or not. Without myself believing the policy desirable to God, I could tackle how the level of a head tax on non-Muslims (the *jizya*) would affect their conversion rate if modern Egypt revived the tax. Without being an environmentalist who believes that conserving oil is a good thing, I could estimate what combination of taxes, quotas, and research funding would most cheaply reduce our consumption of oil to given target. Without being

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6. Not all religions are such. I'm inclined to think that most varieties of Buddhism would be little affected if we omit the historical Gautama, though I may well be wrong, and that the Krishna devotee would not abandon his faith if conclusive evidence were discovered that the *Mahabharata* was pure fiction.

7. Some people would disagree and say that one's religion is based on one's affiliation or behavior rather than one's beliefs. Affiliation is clearly wrong as a definer: a person can call himself a triangle but that does not make him a triangle. Behavior is a useful definer of religion, but in ordinary language if someone says he is a Christian (for example) yet also admits he is entirely insincere, we would not say he is a Christian. This distinction is recognized in the ideas of the Church Visible and the Church Invisible, two non-nested sets. Jewishness, though not Judaism, is different in that it is often used for ethnicity or culture rather than religion. At the heart of both religion and culture, however, is Passover, the celebration of a historical event with ceremonies that revolve around telling its story.

8. The implications of religious assumption are not always obvious. One can believe that Jesus rose from the dead without being a Christian. The standard cite is James 2:19: "Thou believest that there is one God; thou doest well: the devils also believe, and tremble." Belief in historical facts is just a starting point.

Roman Catholic, I could compare the marginal costs of reducing one's time in Purgatory via different indulgences.<sup>9</sup>

In practice, practically all economists, including myself, use the implicit assumption that religious assumptions are false. If I do not mention the possibility that Jesus rose from the dead, the result is the same as if I explicitly assume He did not. For most analyses, to be sure, the Resurrection does not matter. The Resurrection's reality does not affect which exclusive-dealing contracts can raise a firm's profits. Even when religious assumptions do matter, leaving them out reduces things to a common denominator, simplifying the model and appealing to the widest audience. It is always useful to know what maximizes surplus before adding other considerations. I wrote an article on desecration, for example, taking an ideologically neutral position and simply comparing the utility costs and benefits without introducing any considerations of liberty, patriotism, or respect for God (Rasmusen 1998). Law professor Cass Sunstein described my article as "somewhat hilarious" and a good example of what's wrong with economics, since "the idea that 'wealth maximization' is the appropriate goal of a social order is not very plausible" (Sunstein 2000, 336). Most law professors would agree with him; most economics professors would not. If we do not start with ideologically neutral analysis, we would soon find that liberals would say that freedom of expression is good in itself regardless of social surplus, and conservatives would say that what matters is God and Country, not social surplus—an impasse.

Nonetheless, while we may start with simple models that lack religious assumptions, that does not mean we should end there, any more than to begin a paper with a model in which firms lack market power means that the second half of the paper should not incorporate the more complicated assumption. I do hope to see more economic analysis based on religious assumptions. Look, for example, to Stephen Bainbridge (1992) for application of law and economics to the view on corporate law expressed in the U.S. bishops' *Economic Justice for All: Pastoral Letter on Catholic Social Teaching and the U.S. Economy*, or to Steven Brams (1980) on applying game theory with asymmetric information to episodes in the Old Testament, or to the theoretical and empirical analysis by Edward Glaeser and Spencer Glendon (1998) on how belief in predestination affected economic development.

Where I think economics is lacking is not in methodology but in which assumptions are made about this world and the next. Religious assumptions are disputatious, but to ignore them is to assume religion away without confronting

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9. In an "indulgence," the Church releases a person from some or all of the punishment required for his past sins (see Kent 1910). Indulgences for donations to the Church were one cause of the Reformation. Indulgences are still common, but for such things as pilgrimages rather than money, e.g., U.S. Conference of Catholic Bishops (2012). For more recent treatments of the official view of indulgences, see Akin (1994) and Pope Paul VI (1967).

the importance of the assumptions. Neutrality is not possible, and we should think about what the different postulations corresponding to different religions imply about economic behavior and policy.

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## About the Author



**Eric Rasmusen** grew up in Urbana, Illinois. He received his B.A. in economics from Yale in 1980 and his Ph.D. in economics from MIT in 1984. He started at UCLA’s Anderson School of Management and since 1992 he has been at Indiana University’s Kelley School of Business, where he is the Dan and Catherine M. Dalton Professor of Business Economics and Public Policy. He has held visiting positions at the University of Chicago, Harvard Law School, Yale Law School, Nuffield College Oxford, and the University of Tokyo. He has published in industrial organization, applied game theory, and law and economics, and is the author of *Games and Information: An Introduction to Game Theory*. His email address is [erasmuse@indiana.edu](mailto:erasmuse@indiana.edu).

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# Religion, Heuristics, and Intergenerational Risk Management

Rupert Read<sup>1</sup> and Nassim Nicholas Taleb<sup>2</sup>

[LINK TO ABSTRACT](#)

This article does not concern what might be termed ‘the religious side of religion’ (each of us has written about that elsewhere<sup>3</sup>). Both of us are very sympathetic to true religion; to what we call *faith as practice*; to a genuinely spiritual orientation toward life. One of us, Rupert Read, is a Quaker and a Buddhist meditator. The other, Nassim Taleb, comes from a Levantine Greek Orthodox family and, growing up in Lebanon, studied the Quran and other religious texts (Old Testament, Talmud) to practice Semitic languages; he has embraced Greek Orthodoxy as a repository of ancient Mediterranean lore and rites, focusing on the practice aspect (which includes religious fasts and feasts and a focus on the ceremonial), rather than the belief side. A victim of the Lebanese war, he is fully aware of the destructive effects of religious intolerance.

So to the question posed in the Prologue to this symposium (Klein 2014), “Does professional economics needs enrichment by religious or quasi-religious thinking?,” our answer is squarely “yes,” as we believe that religion has traditionally performed a powerful risk-management function at the level of the individual and the collectivity, particularly in preventing the accumulation of debt in systems and in preventing some kinds of experimentation with natural systems, ones that produce errors with irreversible effects. We argue that religion transmits heuristics

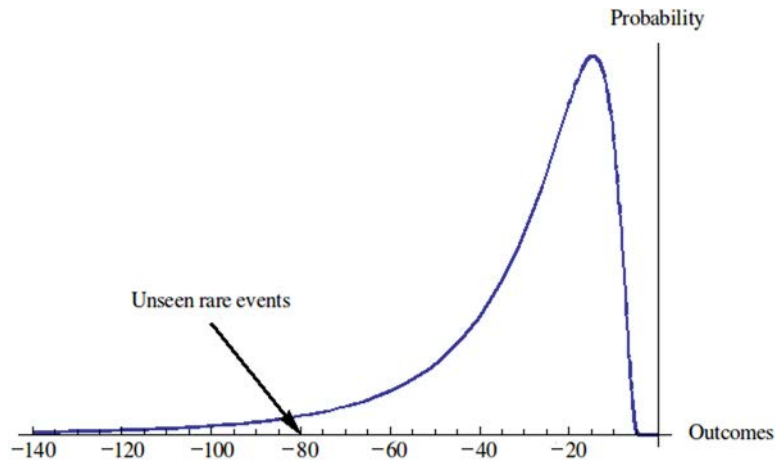
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1. University of East Anglia, Norwich NR4 7TJ, UK.

2. New York University, Brooklyn, NY 11201.

3. See Taleb (2010b, 18-21) and Read (2007, ch. 3).

of risk control across generations, and that religion does so in modes that only it can.<sup>4</sup>



**Figure 1.** Rare or ‘tail’ events tend to not show in (recent) past samples. Yet they are terribly consequential. Religion helps with intergenerational memory by carrying a certain class of interdicts.

Let us start by presenting the problem of silent risk, as seen in Figure 1, a class of severe exposures—‘Black Swans’—that are so infrequent as to not necessarily show in past samples. Yet these are terribly consequential and determine a large share of the statistical properties. Perhaps one cannot explain their ‘causes’ except after the fact, and perhaps not even then. If we look at asset prices, we find a large share of rare events without predecessors. Black Swans are often brushed aside with assurances to the effect of ‘it never happened before’ or ‘times are different.’

Evidentiary or statistical methods fail us there. Such methods consist in looking at the properties of past data and reacting based on recent ‘evidence.’ But

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4. These heuristics belong to the class called “convex heuristics,” mathematically defined in Taleb (2014). Their aim is not to be ‘right’ and avoid errors, but to ensure that errors remain small. A convex heuristic has the following properties: (1) Compactness: It is easy to remember, implement, use, and transmit. (2) Consequences, not truth: It is about what it helps you do, not whether it is true or false. It should be judged not in ‘truth space’ but in ‘consequence space.’ (3) Antifragility: It is required to have a benefit when it is helpful larger than the loss when it is harmful. Thus it will eventually deliver gains from disorder. (4) Robustness: It satisfies the fragility-based precautionary principle. (5) Opacity: You do not need to understand how it works. (6) Survivability of populations: Such a heuristic should not be judged solely on its intelligibility (how understandable it is), but on its survivability, or on a combination of intelligibility and survivability. Thus a long-surviving heuristic is less fragile than a newly emerging one. But ultimately it should never be assessed in its survival against other ideas, rather on the survival advantage it gave the populations who used it.

risk is not really in the visible past but rather in the future: the past is just a proxy. The ‘recent past’ may not show these events and yet, typically, has higher weighting in conventional time series analysis. Further, these silent risks, when they hit, are produced most likely by some largely unknown class of distributions.

Using, for risk-management purposes, ‘fat tailed’ probability distributions (those, such as power laws, that extrapolate beyond the sample set in which they have been calibrated), also fails us because such distributions are extremely sensitive to small changes in parameters.

In addition, consider the class of tail exposures that lead to ruin of a system, whether the economy or the environment. Like a resource that gets depleted in the long term, the risk of ruin makes the system unsustainable. If one incurs a tiny probability of ruin as a ‘one-off’ risk, and survives it, and then continues to repeat the exposure (simply because one has survived), one will eventually go bust. So over time, and under repetition, a tiny risk ends up blowing up the system (Bar-Yam, Read, and Taleb 2014).

Consider the recent crisis that started in 2008, resulting from the wild accumulation of silent risk via a high ratio of debt and leverage in the system. A good knowledge of history might have given people pause, as a similar rise of the debt-to-GDP ratio occurred before the crisis of 1929, leading subsequently to anti-debt sentiment. But the 1929 experience did not effectively cross generations. Economic theories that Taleb has called “risk-blind” or “Black Swan-blind” displaced the heuristic knowledge of grandmothers (2007; 2010b). The argument made in Taleb (2007) is that debt accumulation reflects overconfidence. Underestimation of one’s error rate in forecasting the future leads to more debt, as it makes the payoff under high leverage appear more attractive. In addition, such overconfidence causes fragility in the system.

In the matter of debt, religions have been potent in the prevention of debt accumulation: from the Ecclesiast, to Islam, to Aquinas (*Summa*, II-II, 78). Except for Protestantism, every Abrahamic branch has had some interdict against ‘lending with interest.’ The interdict’s justification invoked issues of moral symmetry between lender and borrower, but we believe that the actual causes for the survival of such interdicts go beyond such a rationalization.

Compare the near-universal religious caution, even exhortation, against debt to the Modigliani-Miller (1958) result establishing that a firm’s debt-equity ratio does not matter for valuation, which invited an entire generation of economists to endorse debt, or at least not caution against it. A careful reading of the literature shows that the highly rationalistic approach of Modigliani and Miller ignores the effect of debt on error in the representation of the future. And economists calling this result a “theorem” when it is fragile to change of assumptions caused it to be taken more seriously than was warranted.



Religion counters the modern post-Enlightenment attitude as it allows us to hold that what we don't see or understand isn't necessarily stupid or irrational. In his technical book *Silent Risk*, Taleb (2014) argues that social science has traditionally operated under the modus that what is not explainable is "irrational." Psychologists and behavioral economists often find that people do not appear to follow a normative model, and then suggest that such behavior is "irrational" or "biased." But in talking that way, the analysts are usually missing layers of uncertainty beyond that of a tinkly-toy first-order model; it is the researcher who is making a mistake, not the real-world person. Taleb (2014) shows that many "biases" can be made to go away by building a richer mathematical model, one with stochastic parameters. He also suggests that much of the decision-science literature on 'dread risk' (whereby humans overestimate particular small-probability risks and overreact to them) and 'long-shot bias' (overestimation by humans of the odds of large-but-infrequent payoffs) turns out not to be robust to changes in assumptions or environment, as the researchers have derived their conclusions using thin-tailed models and experiments in thin-tailed domains. The role of small-probability events is larger in fat-tailed domains, and once we take that into account much of the so-called bias goes away. It looks instead like we humans underestimate risks of unimagined rare events and overestimate our knowledge about the future.

We believe that religion supplies potent tricks to mitigate people's natural epistemic arrogance and overconfidence about the future. "I don't know" is something hard for humans to accept and say; this is made easier in the Arabic language, as the typical traditional expression is "God knows." Saying "God knows" is easier on one's ego than "I don't know."

Wittgenstein (1961/1921, 6.372) remarked: "...the view of the ancients is clearer in so far as they have a clear and acknowledged terminus, while the modern system tries to make it look as if *everything* were explained."

## Religion and beliefs

Let us now enlarge on an idea captured by an aphorism by Taleb (2010, 21): "Restaurants get you in with food to sell you liquor; religions get you in with belief to sell you rules (e.g., avoid debt). People can understand the notion of God, not unexplained rules, interdicts, and categorical heuristics."

When someone discusses religious *beliefs*, he does not necessarily mean belief in the epistemic sense, and the relevance of the epistemic sense of the term decreases as we go back in the history of the fixation of the creed. For ancient Fertile Crescent and Mediterranean pagan systems and what we commonly call

Abrahamic religions (Judaism, Islam, and the various pre-Protestant Christian branches), the notions of *piste*, *πίστις* in Greek, *credere* in Latin, or “Amen”/“Amin” (אָמֵן and آمين) in Semitic languages do not map exactly to what we call “belief” in today’s language. Rather, such notions are rather closer to the root of “belief”: beloved, a sense of commitment, something related to the notion of trust. It is not coincidental that *credere* is related to letter of credit or financial transactions that entail trust (see Armstrong 1994; Boyer 2001).

Accordingly it is an extremely naive interpretation to think that religious ‘beliefs’ map to the ‘justified true belief’ standards of modern epistemology (see Ichikawa and Steup 2014); it is naive to examine the supernatural aspect of religion as anything but epiphenomenal. One needs to think of religious ‘belief’ as closer to a form of trusting, as a form of action, or a willingness to take action, and, most crucially of all, as a set of interdicts upon action.<sup>5</sup> Further, religion establishes a categorical demarcation between sacred and profane, and one that cannot be violated (see Eliade 1959). The sacred is not open to ‘rationalization’—what we don’t understand is not necessarily irrational, and it might have reasons that can be probed only across generations of experience and experimentation.

What we call *religion* itself conflates many ‘religions,’ as if they were variations around the same system providing the same functions. To a Protestant in the twenty-first century, religion has a large element of spirituality. But ancient Mediterranean religion, including the three Abrahamic and other creeds, are about heuristics, laws, and regulatory frameworks. In Arabic, “din” (دين), which now means “religion,” corresponds to “din” (דִּין), “law” in Hebrew and ancient Arabic. *Medina*, which means state in Hebrew and city in Arabic, means literally a place where the law prevails. In addition, Islamic law was explicitly marketed as a sort of risk management, counter to the great legal confusion towards the end of the sixth century about the various commercial rules in the Arabic peninsula, with recourses to makeshift arbiters (*bakam*) (see Schacht 1964).

Religion enforces interdicts.<sup>6</sup> Interdicts appear to be historically the most potent form of regulation, considerably better than moderation. Jon Elster (2007, ch. 13) writes about how abstinence is more effective than rationing or “moderation.”

Consider the evolution of ideas: ‘bad ideas’ (in the epistemic sense) can survive if they have some side benefits—an idea that seems to be absent in the literature about “evolutionary epistemology” (Popper 1999). It is misguided to

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5. Such an understanding of belief is encountered in the philosophy of religion, e.g., by R. W. Hepburn (1958). It is present in the works of Kierkegaard and William James, and especially subtly in Wittgenstein’s writings. Wittgenstein offers a reading of what religion in its true sense is. He offers a way of understanding how religion can be possible and necessary *without* its descending into outright superstition.

6. See Fourrest and Venner (2010) for a list of interdicts across various creeds.

focus on the competition between ideas—and their survival—as an end product. What matters is the survival of the populations that have such ideas. Those with the right risk-management heuristics make it, even if their system of belief does not appear ‘rational.’

## Conclusion

It is not just that religion is a helpful source of sound heuristics for resisting gambler’s ruin and similar hazards. More strongly, we should say that we humans actually don’t know whether human beings can live sustainably *without* something like religion. Modernity is in this sense a dangerous uncontrolled experiment. The amount of historical time that any significant number of humans have lived without religion is infinitesimal compared to the sweep of history. Given that, the amount of time that we have sought as societies, as a species, to live without religion is almost nil. It is a symptom of chronic short-termism and over-optimism that people now *assume* that living in such a way is sustainable.

Just as nature is ‘wiser’ than us (in a statistical, risk-management sense) with regard to a vast swathe of threats, illnesses, etc., just as our knowledge only surpasses nature’s in unusual and rare circumstances, so religious man is wiser than irreligious and non-religious man with regard to a vast swathe of threats, moral and spiritual illnesses and problems, etc. The knowledge of irreligious and non-religious man surpasses that of religious man only in rare and unusual circumstances. Until we have had a lot longer to develop non-religious heuristics that work, we should not throw the precautionary, religion-as-risk-management baby out with the superstitious, theological-claptrap bathwater.

The idea advanced here, about the role of religion for system-risk management, has been aired in a manner to provoke attention and interest; we advocate more research about interdicts that are helpful in risk management and about the viable modes, religious or otherwise, of carrying those interdicts.

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## About the Authors



**Rupert Read** is Reader in Philosophy at the University of East Anglia and was until recently a Green Party Councillor in Norwich. His books include *Kuhn* (Polity, 2002), *Philosophy for Life* (Continuum, 2007), *There Is No Such Thing as a Social Science* (Ashgate, 2008) and *Wittgenstein Among the Sciences* (Ashgate, 2012). He is now working on a book criticizing the political philosophy of liberalism. Read is also Chair of Green House Think Tank ([link](#)). His email address is [R.Read@uea.ac.uk](mailto:R.Read@uea.ac.uk).



**Nassim Nicholas Taleb** traded derivatives for 21 years before starting a research career. His research focuses on practical, mathematical, and philosophical problems with probability, as well as the ability of systems to handle disorder. He is the author of the *Incerto*, a tetralogy (*Antifragile*, *The Black Swan*, *Fooled by Randomness*, *The Bed of Procrustes*), and its mathematical backup *Silent Risk*. He is currently Distinguished Professor of Risk Engineering at New York University's School of Engineering. His email address is [NNT1@nyu.edu](mailto:NNT1@nyu.edu).

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# Sympathy for Homo Religiosus

Russell Roberts<sup>1</sup>

[LINK TO ABSTRACT](#)

I sympathize with Dan Klein's view that economics could use some unflattering. Certainly, the modern view of human behavior as a mathematical exercise in maximization is a bit sterile. The insights of behavioral economics—that we are not very good at the math, are prone to self-deception, and so on—suggest a richer model of human behavior.

But behavioral economics has focused mainly on what we are *not* rather than on a vision of what we *are*. So we are imperfect maximizers prone to self-deception. So mainstream economics is an inaccurate portrait of human beings. But what is to replace that approach? To the extent it has policy implications, the behavioral approach tends to reinforce the same vision as mainstream social welfare theory—that various kinds of government intervention are needed to overcome our individual shortcomings. Which unflawed government bureaucrats and politicians will pull this off? The ones who are wise enough to listen to economists. I do not consider this all that helpful.

Can religion enrich economics? To give one answer to that question, I'll contrast religion's view of human behavior with the standard mainstream microeconomics view. Then I'll take those differences and look at the implications for welfare analysis and public policy.

## The 'flattest' version of homo economicus

Let's begin with the traditional economics view of human behavior and choice. To increase the contrast, I'm going to take the 'flattest' view of that be-

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1. Hoover Institution, Stanford University, Stanford, CA 94305.

havior. This risks making homo economicus into a straw man. Obviously in practice we all enrich homo economicus's behavior and choices in various ways. But the narrowest or flattest view of behavior from the standard perspective does capture the essence of how economists are trained.

In the standard view of economic theory human beings are integrated, consistent, maximizing, utility-seeking, calculating creatures. Homo economicus is fundamentally self-interested. Sure, the well-being or consumption of others might enter one's utility function. In this perspective, giving to charity is akin to buying a new iPad—it's a source of personal fulfillment and satisfaction.

The fundamental goal of homo economicus is racking up more utils, and activities that render utils directly are called "consumption." In the richer view of, say, Gary Becker, the goods we buy are inputs into broader, more fundamental sources of enjoyment. But it is consumption that matters. Work is generally treated as a cost we incur to acquire the income that allows us to consume. Increases in income unambiguously increase homo economicus's welfare, and so too do increases in leisure. In the mainstream view, receiving \$25,000 in annual transfer payments is better than receiving \$25,000 in after-tax earnings, because consumption is the same in both cases but leisure is greater in the former. In the mainstream model, there is no independent satisfaction gained from the act of working.

The value of freedom to homo economicus is to increase utility via maximization of the domain of choice. Freedom allows us to use our local knowledge, including knowledge of our selves, to maximize utility and create efficiency, at least in the absence of market imperfections.

The role of government is to maximize the size of the pie and, for many economists, to distribute the pie in order to maximize some more general concept of societal well-being through a social welfare function. Government policies have the potential to improve economic well-being by correcting for various shortcomings in either personal or market decisionmaking. Standard examples include externalities, public goods, imperfect information, and, increasingly, paternalistic regulation justified by behavioral errors.

## **A religious view of human nature**

How does religion view human behavior and choice? There is a wide array of religious perspectives on human behavior. But there are a few conceptions that are common across many religions. I'll call this view of human nature "homo religiosus."

In the religious view, human beings seek meaning and transcendence in their lives. Human beings are fundamentally flawed and imperfect. Some desires are seen as aspects of ourselves that we are endowed with to confront and temper, even to suppress. Some desires conflict with broader goals of adherence to the divine will or general religious responsibilities. Money and material wealth are never disconnected from higher concerns of religious fulfillment. There is often a gap between the physical and the spiritual. The pursuit of pleasure may lead to temporary satisfaction but is unlikely to lead to contentment or higher fulfillment. Because of the human tendency to pursue short-term pleasure at the expense of longer-term satisfaction, religions add strictures of various kinds—dietary, sexual, and various forms of asceticism to limit the attraction or pursuit of the physical. These restrictions on personal choice enhance the well-being of adherents and believers. Charity, like many other forms of self-sacrifice, is an obligation rather than a form of self-expression. In the religious view, these self-sacrifices improve one's well-being. The goal of homo economicus is self-satisfaction. Homo religiosus seeks meaning and sees the obligations to help others as independent of one's own happiness.

Underlying some of the differences between the two views is the concept of holiness or transcendence—the idea that human beings have obligations to something higher than themselves. This is alien to homo economicus. Economists could try to put holiness in the utility function, I suppose. But homo religiosus seeks to serve a higher cause; he seeks meaning from life.

In the religious view of human beings, the power of community—the coming together of individuals to create something larger than themselves—plays a crucial role in well-being and satisfaction. It could be a traditional religious community organized around a physical house of worship. Or it could be something more mundane—an online gaming community or a youth soccer league. What is to be maximized, what might be described as the good life, is something akin to human flourishing. While some religions disparage material well-being entirely, others—Judaism for example—see our task in this world as one of using our skills and gifts to make the world a better place. Work is a source of meaning not just because we enjoy it but because by using our skills we are doing God's will. Religion views leisure in different ways. For some, it is an absolute bad—idle hands are the devil's workshop—while for others it is more benign. But few, if any, view it as inherently good.

Economic growth in the religious perspective is good but comes with challenges. Reduced work time allows more time for helping others or serving God. But it may also lead to a focus on consumption activities that have little value in producing true fulfillment.



Freedom gives us the opportunity to serve God in various ways—through our personal choices and through the uses of our time to create community, fulfill religious obligations, help others, and enhance our families.

In the religious view, there is no obvious conception of the ideal government. It is easier to talk about what government should not do. It should not crowd out private, voluntary efforts to fight poverty or enhance families. Private voluntary efforts have value to both donors and recipients that are independent of the amounts given. The amounts matter, but there is a real difference between choosing to help someone and being forced to help someone. Usually in mainstream economics, all that matters is improving the consumption of the poor. Of course, it is possible to re-configure the utility function to allow people to care about their own contribution rather than just the total effect on the consumption of the poor.

## Sympathy for homo religiosus

One can be sympathetic to what I have called homo religiosus without being religious. What I have described here as homo religiosus is not that far from Adam Smith's conception of human behavior in *The Theory of Moral Sentiments*, a conception that is not inherently religious. In Smith's view of human nature, we are flawed, self-deceiving, and prone to overrate the benefits of wealth-seeking and power-seeking. Consumption rarely leads to satisfaction. What we care deeply about is the respect, honor, and affection that we receive from those around us.

Of course, Smith was able to write *The Wealth of Nations* without referring much to these aspects of our nature. This suggests that the richer view of human nature espoused by Smith in *Theory of Moral Sentiments* or by an explicitly religious perspective adds little to economics. It is easy to then dismiss the richer viewpoint as unnecessary for most of what economics examines—market transactions, investments, global trade, and so on. It's not a bad argument.

To further defend the mainstream view, one might argue that all of the implications of the religious view can be regained by sufficient manipulation of the utility function. If people indeed care about community, religious or otherwise, we can put that urge into their utility function and thereby explain why people might be willing to sacrifice personal well-being in order to help others. In this model, I would bring food to the family of a newborn even when I no longer expect additional children. Even without expected reciprocity I expend real resources and gain a feeling of belonging as compensation for my sacrifice. Similarly, it is relatively easy to assume that people get satisfaction from their work and that a dollar earned through working is worth more than a dollar received in a government check.

Much of Becker's work was an attempt to enrich the most sterile versions of homo economicus (see, e.g., Becker 1997). He managed to maintain the richness of human behavior while keeping the formal models of utility maximization under constraints. That level of artfulness among economists is rare, however. My claim here is that most practitioners of the standard model ignore that richness or are unable to include it effectively.

Whether this approach is productive relative to the more nuanced but perhaps less powerful analytics that result from a less mechanistic view of behavior is an interesting question but not one I'll address here. Instead, I want to speculate on a different implication from these views of human beings and their behavior. I want to explore the possibility that the methodological differences, the very style implicit in the two approaches, has implications for how economists think about public policy, human well-being, and the connection between the two.

My speculation is that if you are trained to see human beings as something akin to calculating machines, if your research sees them as calculating machines, and if you teach your students a view of human beings as calculating machines, it's inevitable that something of that perspective will affect how you view public policy. The dominant view of economists is that the economy is a mechanism that we as economists are able to configure via the levers and dials of public policy to improve on the outcomes that emerge from the private choices of individuals. This is the worldview behind monetary and fiscal policy as well as behind potential welfare improvements through antitrust policy, Pigovian taxes and subsidies, and paternalistic restrictions on our diet and leisure choices.

This view is so dominant that we rarely question where it comes from. What is the basis for the view that the policy suggestions of economists can improve matters? Our theories, of course. But are those theories reliable? Perhaps some of the hubris of economists' suggestions comes from our mechanistic view of human behavior, the simplicity of 'calculating' the combination of goods and services that maximizes utility, and so on. Creating more utility is a mathematical calculation, an engineering problem with a solution.

My worry is that our methods may be encouraging us to see human beings as pieces on a chessboard whose motions and working we purport to understand. This in turn makes us prone to become men and women of system, with an overconfident vision of what will serve to improve the well-being of the chessboard we are managing.

The religious view, and the Smithian view, of man encourages a humbler approach to human welfare. We are complicated creatures, we human beings. The road to improvement isn't as well mapped as we might like to believe. Recognizing the complexity of human motivation should make economists, and others, more

humble about their ability to intervene in private choices in a way that is welfare enhancing.

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## About the Author



**Russ Roberts** is the John and Jean De Nault Research Fellow at Stanford University's Hoover Institution. He is the host of the weekly podcast [EconTalk](#); he blogs at [Café Hayek](#). He is the creator with John Papola of [the Keynes-Hayek rap videos](#). He is the author of three economic novels. His next book, *How Adam Smith Can Change Your Life: An Unexpected Guide to Human Nature and Happiness* (Portfolio, 2014), applies the lessons in Smith's *Theory of Moral Sentiments* to everyday life. His email address is [russroberts@gmail.com](mailto:russroberts@gmail.com).

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# Can ‘Religion’ Enrich ‘Economics’?

A. M. C. Waterman<sup>1</sup>

[LINK TO ABSTRACT](#)

I have protected the two nouns, *religion* and *economics*, with quotation marks because we can make no progress in addressing the question without a clear understanding of what we are going to mean by them. But first, dutiful Anglican that I am, I shall answer my catechism (see Klein 2014, 102-103). Next I shall say what I understand by the primary terms; and then explain why the answer to the symposium question must be “No.”

## Catechism

*Q: Can you tell us about your own religious background and biography? What is your own religious outlook?*

*A:* Yes: I will do so, for it is relevant. I was trained in economics at Cambridge, where Joan Robinson was my supervisor. Later I studied theology in which I have a degree, and was ordained to the priesthood. My bishop determined that I should have an academic ministry *as an economist*, and directed me to take a doctorate. I conducted research on the Australian business cycle at the Australian National University under T. W. Swan and Noel Butlin, and my doctoral thesis became my first book. In 1979–80 I was Maurice Reckitt Fellow at the University of Sussex where I began my research on Christian social thought—which was what my bishop had hoped I should study. In general, my work since that time has addressed various aspects of the relation between theology and economic theory in

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1. St. John’s College, University of Manitoba, Winnipeg, MB R3T 2N2, Canada.

Christian thinking. I resigned my orders in 1982: chiefly because by then I realized that I had no vocation to the pastoral ministry, though also because a layman has more freedom of opinion than a cleric. But that has made no difference to my research program or to its motivation. As my bishop correctly discerned, my Christian vocation is to be a theologically trained economist.

*Q: What does your faith bring to your economic thinking that is otherwise lacking in, or even precluded by, mainstream economics?*

*A: Nothing.*

*Q: Does your faith inform the kinds of questions you choose to research?*

*A: No, but there is no reason why it need not. And in fact I study the relation between economic theory and Christian theology because I am a Christian and want to think clearly about my faith and my profession. But the agnostic Jew, Jacob Viner (1972), was working on this topic decades ahead of me (alas, I shall never catch up with him!) simply because of its intellectual interest.*

*Q: Do you use religious sources, such as the Bible, as a resource for economic understanding, instruction, or research? For example, for gaining economic insights, for illustrating economic ideas, or for evaluating economic ideas?*

*A: No, but it is possible that some might get what Joseph Schumpeter (1954, 41-42) called “preanalytic” insight from biblical or other religious literature. For in science, “anything goes” (Feyerabend 1988, 14, 249).*

*Q: Do you feel that the economics profession exhibits biases against religion generally or against your faith in particular?*

*A: No. Though Paul Samuelson—who was proxy for “the economics profession” for much of the twentieth century—once told me that his Protestant wife (his first wife) used to say to him, “When anyone mentions ‘religion’ you reach for your gun.” But like all true scientists he had a genuinely open mind. He also said to me, “I never bother to talk to anyone who agrees with me: I learn nothing from them.” (We were arguing about whether Adam Smith was a Christian when he wrote *Wealth of Nations*.)*

*Q: Has your career as an economist suffered in any way on account of your religious faith?*

*A: Certainly not: if anything, the reverse.*

*Q: Why are very few prominent economists openly religious? Is it because prominent economists who are religious have chosen to be reticent about their faith, ...*

*A: No.*

*...or because there simply are few prominent economists who are religious?*

*A: Yes, this is more plausible. Twenty-five out of 74 Nobel laureates in economics have been Jewish, few if any of whom have been observant. And in general, very few scholars and scientists nowadays are religious believers of any kind. But relatively few are militant atheists like Richard Dawkins or the late Christopher Hitchens. Tolerant agnosticism is the default position.*

*Q: What is your take, as a person of faith, on Max U?*

*A:* I regard it as an element in the Lakatosian “hard core” of economic analysis, against which we should not direct our negative heuristic (Lakatos 1970, 133).

*Q: What is your interpretation of Adam Smith's invisible-hand clause in The Wealth of Nations? Is it just a metaphor or is it a reference to divine providence, with God as the being whose hand is invisible?*

*A:* It could be either, or even part of a quasi-Augustinian theodicy (Waterman 2002). But whatever Smith may have had in mind when he wrote the clause is now both unknowable and irrelevant. All we need to understand is that this is a memorable statement of a key idea which has been at the heart of economic analysis since Boisguilbert: that the private, self-regarding actions of individuals have unintended social consequences, and that those consequences may be benign (Faccarello 1999). We may, like the Jansenists, draw theological inferences from this, e.g., the invisible hand as an example of St. Augustine's *remedium peccatorum*. But we must be careful to note in this case, as in all other examples of natural theology, it is the science that motivates the theology, never the other way round.

## Religion

*Religare* means to bind or to fasten together (cf. *ligature*, *ligament*, etc.) Whatever else *religion* means in modern English its etymology implies it is that which binds human social groups together. Modern Israel, and Islamic states like Iran, are bound together by a common set of cultic practices and traditions, and a common belief in their divine authority. Until recently this was also true of Christian nations. As late as 1906 the Attorney General of Canada could inform Parliament that Christianity was part of the law of the British Empire. There was no dissent. Even in the USA, the world's first secular society, subsets of the population were and still are held together in this way. Roman Catholics, Orthodox Christians, and Episcopalians recognize one another, and are held together, by the fact that they go to mass on Sundays. Members of various Protestant societies recognize one another in cognate ways: abstaining from alcoholic liquor, not playing golf on Sundays, attending Bible classes, etc.

In all save the most anti-intellectual fringe groups, religious practice—including Christian practice—is rationalized and underpinned by certain cognitive claims construed as ‘beliefs.’ Virtually all Christians for example believe in a single, Creator God, understand the risen Christ as a unique, God-man hybrid, and feel that Christ is still present in this world through the operation of what they call the “Holy Spirit.”

Cognitive claims count as ‘knowledge’ until falsified. The question is, what kind of ‘knowledge’? Is religious knowledge the same kind of animal as scientific knowledge? The latter, as Karl Popper (1945; 1963; 1968) put it, is tentative, provisional, fallible, and corrigible. It is only a slight caricature to say that scientific knowledge, generated by the method of “conjectures and refutations” (Popper 1963) is the current body of as yet unfalsified theory. And what counts as ‘refutation’ is hard evidence—accessible in principle to all the world—that the refuted theory has been superseded by a more successful one (Lakatos 1970, 116). The implication is that nothing can count as scientific knowledge unless it is falsifiable. Popper had lots of good clean fun with the Marxians and Freudians about that. They were not doing ‘science’ as they pretended: they were simply constructing myth—which of its nature is unfalsifiable.

Some theologians and philosophers think that religious knowledge, or at any rate Christian religious knowledge, resembles scientific knowledge to some extent. Many would agree, for example, that if incontrovertible evidence came to light that Christ did not rise from the dead, then Christianity would be false and we should have to abandon it. But most of what we call religious knowledge is not falsifiable in this way and therefore has more of the nature of myth. The Genesis account of Creation and Fall, without which Christian belief is pointless, cannot possibly be falsified. Its truth can only be known by faith. What does that mean? It means that we come to *know* through what we *do*—as in “Adam *knew* Eve his wife” (Gen. 4:1). St. Augustine taught that it was through practice of what the Church later identified as the ‘theological virtues’ that we come to know God. Hence “a man supported by faith, hope and charity...does not need the Scriptures except for the instruction of others” (Augustine 1958, I.xxxix). He has come to knowledge *of*, rather than merely knowledge *about*, God.

Can religious knowledge, direct and experiential as it is, be falsified? Ultimately yes, but not in the same way as scientific knowledge. Believers sometimes lapse because their faith—however reinforced by hope and charity—no longer makes sense for them, no longer explains their experience of what they used to think of as ‘God.’ This is a subjective and private falsification which has no necessary consequences for the faith community they have quitted. But in science falsification is objective and public, and it commits the scientific community to a revision of what is to count as knowledge. Moreover, falsification is an ever-present possibility. Religious ‘knowledge’ therefore is certain and infallible for those who still believe. But scientific ‘knowledge’ is always tentative and provisional for those who understand and produce it.

## Economics

*Economie politique* began life as a recipe book for running the state as a manorial fief of *le roi soleil*. It was redefined by Adam Smith (1776/1776, IV.ix.38) as an open-ended, scientific study of the nature and causes of the wealth of nations. His successors of the English School (Waterman 2008)—Malthus and Ricardo down to the mid-Victorians—defined the subject of their inquiry “as that of the laws which regulate the production and distribution of wealth” (*Edinburgh Review* 1837, 77). By contrast with the “foreign school,” their “study is purely a science” (*ibid.*). But over the nineteenth century, as the implications of diminishing returns—a consequence of scarcity, central to the analyses of Malthus and Ricardo—were generalized by the marginalists to all possible factors of production, the science of *wealth* gradually mutated into the science of *scarcity*. Political economy became *economics* as later defined by Lionel Robbins (1933, 16).

When individuals ‘economize’ they act purposefully, in the face of scarcity, to achieve some private goal sought by themselves. But as Boisguilbert was perhaps the first to note, their economizing actions have unintended social consequences. It is these consequences, and the question of whether they are benign or malign, that have attracted the attention of most economists since Adam Smith. And because unintended consequences of private goal-seeking acts are evident in a wide range of social phenomena, it is impossible to put a boundary around ‘economics’ and define its subject matter. As Maynard Keynes (1922, v) observed, economics is not “a body of settled conclusions,” it is “a method rather than a doctrine, an apparatus of the mind, a technique of thinking.” This was perfectly illustrated by the late Paul Heyne in his world-famous textbook, *The Economic Way of Thinking* (1st ed., 1973). He described our method of thought as “the presupposition that all social phenomena result from interactions among the choices that individuals make after calculating the expected benefits and costs to themselves” (Heyne 1998, 8).

Now it is obvious that we “individuals” often appear to act without “calculating the expected costs and benefits” to ourselves. We fall in love, volunteer for dangerous missions, perform acts of pure, disinterested charity, sacrifice ourselves for our country or our creed. Some economists explain such things on the assumption that “individuals maximize welfare *as they conceive it*, whether they be selfish, altruistic, loyal, spiteful or masochistic” (Becker 1997/1993, 38, italics in the original). They have enlarged the range of ‘economic’ explanation and deserve their Nobel prizes. Yet the fact remains that we do not always conceive our ‘welfare’ with sufficient clarity to override all other sources of human motivation. St. Paul admits that “what I would, that I do not; but what I hate, that I do” (Rom. 7:15),



and many of the rest of us feel the same. It may be difficult to maximize what one conceives as one's own welfare if one is locked into a Prisoners' Dilemma. We may defer to ethical imperatives which oblige us to subordinate our own welfare to that of another. And even if we do clearly perceive our own best interest, the paradox of hedonism may hinder our realizing it. Explanations based upon the assumption of any kind of rational self-interest, therefore, can never be complete. Where does this leave the scientific status of our discipline?

As in all scientific inquiry, the "research program" of economics is based on a "hard core" of primitive assumptions, from which "meaningful theorems" are deduced (Lakatos 1970, 133; Samuelson 1947, 4). If these afford explanations or predictions that fail to correspond with what we observe, what do we do? Either we go back to the drawing board and start with a new "hard core" or we can protect our theorems with a body of supplementary assumptions and theory—leaving the hard core intact—by means of which we can deal with the anomalies produced by the first draft. But further inquiry with our revised program may continue to encounter anomalies. Has our theory then been falsified? No. Not until we can put something better in place: where "better" means giving all the right answers and avoiding the anomalies the old theory produced, and also enlarging the range of possible explanation and prediction. Only at that point do we throw out the old program with its now useless hard core of protected assumptions.

No one will pretend that present-day economic analysis, based on the assumption of rational self-interest, can explain or predict everything we want to know about human societies. But it seems that our assumption is true enough of most people most of the time. Hence although anomalies abound, the explanatory range of our science continues to increase. Game theory, information theory, public choice theory, the "economy of esteem" (Brennan and Pettit 2005), behavioural economics, New Classical macroeconomics, etc., have been rich in supplementary hypotheses. A number of heterodox traditions of analysis persist in which explanations other than individual welfare maximization have been offered. But in recent decades the most influential and coherent of these has given birth to a rational-choice Marxism. For the time being, it would appear we are stuck with Heyne's understanding of 'economics' as enlarged by Gary Becker and enriched by recent discoveries of what might count as individual rationality.

## **The relation between religion and economics**

When religion is regarded simply as an heuristic enterprise—and of course it is far more than that—its relation to economics is a particular case of its relation to

science in general. That relation is asymmetric. Science can be of service to religion, but religion can be of no service to science.

Christians and other strict monotheists believe in “One God, the Father almighty, maker of Heaven and Earth, and of all things visible and invisible.” To use Adam Smith’s terminology, the God that they know by faith is not only the “Supreme Being” but also the “Author of Nature.” Believers may therefore supplement and enrich their knowledge of God by a study of Nature (e.g., Ps. 19:1). Sir Isaac Newton published his *Principia* in 1687—the most far-reaching scientific account of the created universe to that date—with “an eye upon such Principles as might work with considering men for the belief of a Deity” (Newton 1756, 1). For a century, the *Principia* was required reading for Cambridge undergraduates as part of their *theological* education (Waterman 1991, 66, 87-88). ‘Natural theology’—which Adam Smith taught at Glasgow in the 1750s—provided the intellectual underpinnings of Anglophone Christianity throughout the eighteenth century. This was sustained until the mid-nineteenth century by the immensely influential *Natural Theology* of William Paley (1802), which presented overwhelming biological evidence of seeming (i.e., pre-Darwinian) ‘intelligent design’ in the adaptation of species to their environment.

The significance of natural theology for economics was not lost on Richard Whately, one of the most powerful thinkers in nineteenth-century Oxford and the only economist in history to move directly from a professorial chair in political economy to an archbishopric without intervening stages. In his *Introductory Lectures* Whately illustrated the market mechanism with an example later incorporated in Samuelson’s textbook: “the problem of supplying with daily provisions of all kinds such a city as our metropolis” by individuals “who think each of nothing beyond his own immediate interest” (Whately 1832, 93-94, 96; cf. Samuelson 1958, 37-38). In light of such economic phenomena, Whately considered “making a sort of continuation of Paley’s ‘Natural Theology,’ extending to the body politic some such views as his respecting the natural” (Waterman 2004, 123-124). But he never carried it out, and the task of using economics to enrich or at any rate support religion fell to Frédéric Bastiat.

It is obvious from this account of natural theology that whereas science—including economics—can be of service to religion, religion can be of no service to science. For in order for the knowledge that comes by faith to be enriched by the knowledge that comes from science, two conditions must obtain. First there must be prior knowledge of God available by faith alone; and secondly *scientific knowledge must be completely independent of religious knowledge*. For if it were not, it would be useless as evidence in support of faith. To infuse (certain) knowledge derived from faith alone into a system of (tentative and provisional) knowledge derived from the

observation of Nature, and then to use the result to buttress the knowledge derived from faith, would be either confused or dishonest.

This too was not lost on the perspicacious Whately, who like his contemporary J. S. Mill was first and foremost a logician. As part of his strategy to defend the study of political economy at Oxford from his reactionary colleagues who deplored it as godless, Whately developed a distinction made by his former pupil, Samuel Hinds (1831, 4-5) between secular knowledge known by “our own natural faculties” on the basis of “proper evidence,” and sacred knowledge which comes by faith, through which we can see God’s self-revelation in Scripture. Thus “Scripture is not the test by which the conclusions of Science are to be tried”; its purpose rather is “to reveal to us religious and moral truths” (Whately 1832, 30, 32). Political economy is scientific inquiry based on theory and observation, and it neither depends on nor encroaches upon the authority of divine revelation. The ostensible purpose of Whately’s demarcation was to defend political economy from an illegitimate assertion of scriptural authority; but he was also concerned to prevent it from being hijacked by the atheistic radicals of that day, associated with the *Westminster Review*, whose strident pretensions had alarmed Tory, high-church Oxford (Waterman 1991, 206-215).

It would appear from the foregoing that not only does economics *not* “need an infusion of religious or quasi-religious formulations” (Klein 2014), but also that any attempt to supply such an infusion would be to misunderstand the nature and purpose both of economics and of religion. This does not mean that some ‘pre-analytic’ insight derived from religion could not be tried out within the existing methodological framework of economics. If it were, and if as a result one or more of the anomalies which afflict current economic theory were resolved, all would cheer and the author would get a Nobel prize. But it would not be the infusion of any *religious* formulation, for science must exclude all faith-knowledge, which is necessarily private, and rely solely on publicly available evidence. In order to be useful, the pre-analytic insight would have to give rise to some theoretical formulation that could contribute to a new meaningful theorem.

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## About the Author



**A. M. C. Waterman** read economics at Cambridge, where Joan Robinson was his supervisor. Later he studied theology, in which he has a degree, and was ordained to the priesthood. His bishop determined that he should have an academic ministry as an economist, and directed him to take a doctorate. His doctoral research on the Australian business cycle at the Australian National University under Trevor Swan and Noel Butlin became his first book. In 1979–80 he was Maurice Reckitt Fellow in Christian Social Thought at the University of Sussex, and his work since that time has addressed various aspects of the relation between theology and economic theory in Christian thinking. He resigned his orders in 1982 and is now an Anglican (i.e., Episcopal) layman. His email address is [watermn@cc.umanitoba.ca](mailto:watermn@cc.umanitoba.ca).

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## Sin, and the Economics of ‘Sin’

Andrew M. Yuengert<sup>1</sup>

[LINK TO ABSTRACT](#)

*Sin is present in human history; any attempt to ignore it or to give this dark reality other names would be futile.*

—*Catechism of the Catholic Church* (1993, §386)

In the economics of sin (see Cameron 2002), a part of the thriving economics of religion (see McCleary 2011; Oslington 2014), the label ‘sin’ is attached to three kinds of behaviors. The first kind is behavior that violates social norms (Bicchieri 2006); someone who takes more than her implicitly fair share of some common pool of resources ‘sins’ against her neighbors. Second, there are behaviors which, in the context of habit formation and time inconsistency, impede the maximization of personal well-being (Laibson 1997; Gul and Pesendorfer 2001); it is a ‘sin’ against yourself when you fail to follow through on that plan to exercise more. Third, there are behaviors which threaten the market power of certain religious and cultural institutions (Ekelund and Tollison 2011); it is a ‘sin’ against your church when you spend your Sunday at the mall when you could be praying, paying, and obeying in your parish.

The economics of sin offers real insight into the exchange aspects of sinful behaviors, the possible internal conflicts that sinful behavior results from and gives rise to, and the forms and purposes of the social regulation of sinful activities. As with all economic analysis, however, the economics of sin is not intended to be a full description of the reality of sin; it is only a sketch, an approximation. The methodological purpose of the sketch is to generate predictions and some understanding of the causes and consequences of sinful behavior and its regulation. I have argued elsewhere (Yuengert 2012) that the ‘approximations’ of economic

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1. Pepperdine University, Malibu, CA 90263.

theory can only be understood *as* approximations by reference to some account of what is being approximated.<sup>2</sup> By this reasoning, we can understand the nature and the limits of the economic sketch of ‘sin’ only by comparing it to a fuller account of sin.

Religious thought gives an account of sin to which the approximations of economics can be compared and evaluated. I will not attempt a general theological definition of sin, acceptable to all religions, but will stick to what I know: Roman Catholicism. The next section outlines a Catholic account of sin, with a view to understanding what is left out of the economic sketch. My focus is the second type of economic ‘sin’, captured by models of the choice of goods thought to be ‘sinful’ and models of internal conflict. Although new developments in economic modeling allow economists to address some of the concerns raised by the Catholic theology of sin, the most significant difference between economics and Catholic theology is that between the normative frames they employ. In the economic account, scarcity is the problem, and the solution is efficient institutions and regulation. In Catholic thought, the problem is disorder in the human soul caused by alienation from God, and the solution is a set of institutions which encourage reconciliation and a restoration of order.

## Sin in Catholic theology

*The Catechism of the Catholic Church* defines sin thus: “Sin is an offense against reason, truth, and right conscience; it is failure in genuine love for God and neighbor caused by a perverse attachment to certain goods. It wounds the nature of man and injures human solidarity” (1993, §1849). In this definition there are echoes of the first two kinds of ‘sin’ economists analyze (the social and the personal), but not the third (sin against religious control). Sin is first a sin against God, not just the violation of standards set by religious institutions competing for influence and power.

In Christian thought, the God against whom human beings sin is not just another agent with interests to optimize and with an ability to punish and reward—someone whom we must factor into our calculations in order to get what we want insofar as we are able. The God of Christianity is transcendent, not part of creation but apart from it. He does not live in the heavens. He is not anything like the Higgs boson. He is not measurable by the tools of science. Partial knowledge of His

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2. Yuengert (2012) offers a secular account of decisionmaking (Aristotelian practical wisdom) as a background against which the approximations of economics can be compared.

existence and nature can be achieved through philosophy (Spitzer 2010) and fuller knowledge through revelation: His own communication about Himself.

In Catholic theology, God is the Creator of all that is. This act of creation is comprehensive and ongoing. Space, time, the laws of physics, are all created and kept in existence continually: "For in him we live and move and have our being" (Acts 17:28). For this reason, sin in Christian thought is always more than 'missing the mark', a failure to achieve our own goals or to achieve some socially determined objective. Sin is a rebellion against the maker of 'the mark'; it is also a rebellion against the mark He has made in us. Sin against God is a sin against the nature He has given us.<sup>3</sup>

What is the nature given us? In Catholic thought, each human being is a unity of body and soul; we share bodily nature with other animals, but we are not simply animals. Our spiritual nature makes freely chosen communion with others and God possible. The actions by which we create or break this communion are the result of a dynamic interaction between our passions (emotions), reason, and will (reasoned appetite).<sup>4</sup> Our wills move us toward what we judge to be good. Human beings are different from other animals in that we can reason about what is good for us, and we can pursue it because we think it good, even if we are sometimes disastrously mistaken. The wildcard in this account of action are the passions, which we share with other animals. Passions are morally neutral in themselves: they are part of our created nature. However, the relationship between passion, reason, and will is uneasy and can be unstable. In Catholic theology the disordered relationship between passion, reason, and will is a result of the Fall, described figuratively in Genesis 3. Passions can be brought into (an often uneasy) agreement with reasoned judgment, but they can also overcome reasoned judgment, often recruiting reason to rationalize desire.

Every human being is to some extent alienated from his or her nature, because of sin. However, no human being can reject his or her nature completely. There is no real alternative to our created nature except nothingness. As a consequence, any rebellion against our created nature must use our created faculties in some unbalanced way, emphasizing either will, passion, or reason so as to diminish the proper role of the other faculties. Catholic theology confirms the sad experi-

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3. The claim that all sin is primarily against God is not a claim that all sin is fully and *intentionally* a rejection of God, or even that it is fully and intentionally a rejection of our created nature. It is a claim that sin is action which is fundamentally at odds with our created nature, and consequently at odds with the Creator and sustainer of that nature. Our own awareness of the rebellion embodied in our actions might be only dim; this dimness makes us piteous and less culpable, objects of Divine compassion, patience, and grace. See the *Catechism of the Catholic Church* (1993, §457).

4. The Catholic description of the human constitution draws on the natural law tradition, in which the interplay of will, reason, and passion is foundational (see Aristotle, *Nicomachean Ethics*; McInerney 1997).



ence that rebellions against our nature, whatever faculty they emphasize, most often end in an embrace of and slavery to untutored passion. One of the primary consequences of sin is that our passions become less amenable to reason and can come to dominate both will and reason.

Before examining the implications of sin for how economists see the world outside of their models, we must mention two other crucial dimensions of Christian sin. First, sin leaves a mark on the sinner; it results in a condition of guilt. Guilt is not shame; it is the true state of the person in the presence of the God whose gifts he has rejected. It is lasting, and ubiquitous: “All have sinned and fall short of the glory of God” (Rom. 3:23). Guilt can be removed, but only by the initiative of God the Creator and the response of the person—conversion—which reestablishes the communion between Creator and the creature and restores some measure of order to the soul. Second, the God against whom we sin “longs for a reconciliation” (Pieper 2001, 7). God will not just take us or leave us. The Christian scriptures recount the history of salvation, not of punishment.

## **The economics of ‘sin’, and sin**

In the Catholic view of sin, the fundamental human problem lies in the human soul: the person is in rebellion against God and his own nature. The solution to this problem is conversion, a restoration of the person to communion with God and to peace with himself. In more broadly religious terms, conversion becomes a reconnection of the person to the transcendent, a restoration of peace and wholeness to the soul. With the Catholic view of sin as a background, what can we learn about the economic sketch of sin?

The primary difference between economic models of choice (‘sinful’ or otherwise) and the Catholic account of sin is the characterization of the objectives of action. In most economic models, including models of ‘sin’, there is no inner conflict: the preferences which motivate action and are revealed by choice are an unproblematic representation of what people think is good for them. Within this framework, the policy problem is scarcity: there are tradeoffs between the various goods which consumers unproblematically desire. The policy solution is efficient institutions and regulation.

Recent innovations have modeled a measure of internal conflict in economic choice, and these models provide a language in which positive analysis can address the Catholic concept of sin. A prominent example is the intertemporal consumption model of Jonathan Gruber and Botond Köszegi (2001), which combines the habit formation model of Gary Becker and Kevin Murphy (1988) and the present-bias model of David Laibson (1997). For certain parameter values, the Gruber-Köszegi model can describe time inconsistency, in which a consumption plan

formulated at time  $t$  is not carried out in future periods, and addictive behavior, in which consumption choices increase future preferences for consumption. There are even trajectories in consumption that resemble the alienation of an agent from his own interests, a trap in which a person lives only for the moment and is unable to apply effective decision weight to future costs and benefits from current actions.

Although the Gruber-Kőszegi model describes internal conflict and the traps of habit in a compelling way, and thus introduces into consumer theory notions of self-control and virtue, it still maintains something unproblematic in consumer preferences. The consumer may have difficulties in maximizing his utility, caused by time inconsistency, but there is nothing problematic about the utility he is trying to maximize. The policy challenge posed by the model is to help people who have self-command problems to maximize an unproblematic utility function (Gruber and Kőszegi 2004).

A theological perspective calls attention to a more fundamental problem faced by the consumer: there is an internal division between what will allow him to flourish according to his created nature and the preferences that motivate him to action. The tension occasioned by this division can be so sharp that the consumer, blinded by passion, may not have a clear view of where his true interests lie. Such a theological perspective forces us to question the normative weight usually assigned to the functions and parameters which describe the consumer's objectives. Is the objective function a description of passions overriding reasoned judgment, or does it instead reflect reasoned judgments about the good? If in each case the agent chooses consistently (that is, in a way that satisfies the preference axioms of completeness and transitivity), then a positive economic theorist may well not be able to distinguish the slave to sin from the virtuous consumer, or to make other important normative distinctions.

## Conclusions

This brief essay must leave unaddressed many important lines of economic research that touch on order and disorder in human preferences and choice: the economics of happiness (Bruni and Porta 2007), work on non-cognitive human capital (Heckman 2007), and neuroeconomic research (Camerer, Loewenstein, and Prelec 2005), to name a few. These innovations are useful and exciting; such work can help us to organize our thoughts about normative matters, as long as we remain aware that it still frames the policy problem in efficiency terms—in terms of helping consumers with self-command challenges to get what they 'want' in an efficient way. This is fine as far as it goes, but it is unable to capture the normative concerns raised by a theological reading of sin: that the fundamental problem is not scarcity, but the conflict within the human soul. Policies which help individuals to get what

they want—whether or not what they want is what is in fact good for them—are not necessarily the policies that might restore some order to the human constitution.

These concerns are not purely religious. The rise of survey-based happiness economics is evidence of decreasing confidence among economists that choice strictly reveals well-being, and that research has broadened the range of goods and behaviors associated with well-being. The capabilities approach (Sen 1985; 1999; Comim, Qizilbash, and Alkire 2008) is another approach to human welfare born out of skepticism that choice strictly reveals well-being. Such approaches are welcome, and they overlap significantly with theological concerns. They are evidence that the economic model is up against limits on its ability to inform policy and must go beyond its theoretical choice framework to be normatively useful.

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## About the Author



**Andrew Yuengert** is Blanche Seaver Professor of Social Science at Pepperdine University. He holds a Ph.D. in economics from Yale University and a B.A. in economics from the University of Virginia. Prior to joining the faculty at Pepperdine, he was a research economist at the Federal Reserve Bank of New York. He is the author of three books: *The Boundaries of Technique* (Lexington, 2004), *Inhabiting the Land: A Case for the Right to Migrate* (Acton Institute, 2004), and *Approximating Prudence: Aristotelian Practical Wisdom and Economic Models of Choice* (Palgrave Macmillan, 2012). His email address is [Andrew.Yuengert@pepperdine.edu](mailto:Andrew.Yuengert@pepperdine.edu).

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