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Where There Is No Vision, Economists Will Perish

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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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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.[2] 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.'[3]

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 be 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.[4]

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,

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."[5]

> 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,

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.[6] 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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