Acton Institute

# Religion & Liberty

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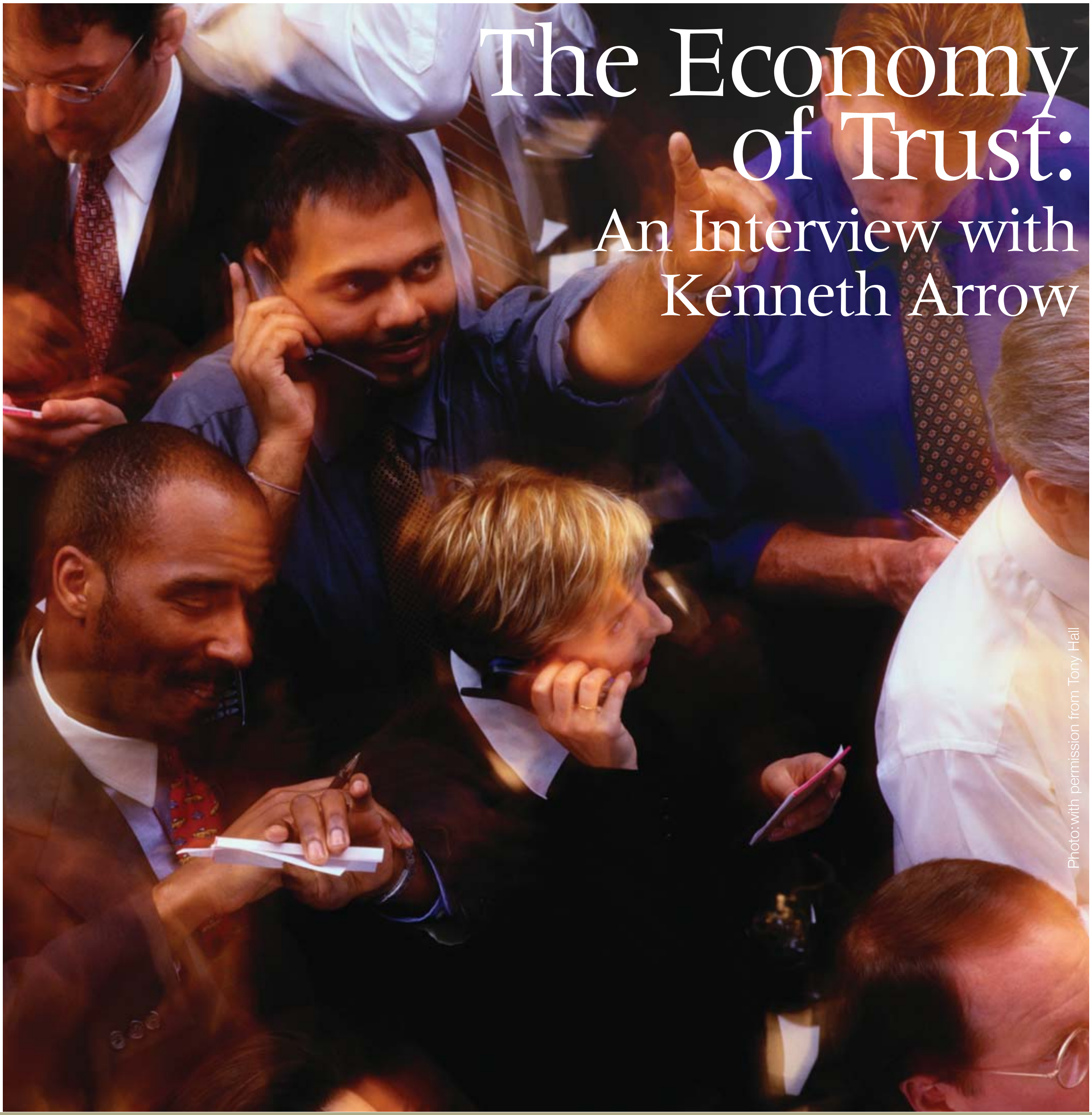
## Inside this issue





# The Economy of Trust: An Interview with Kenneth Arrow

Photo: with permission from Tony Hall

A Journal of Religion, Economics, and Culture

# Editor's Note

Do you have to be good to do well? The relationship between virtue and worldly success is one that is often discussed at our Acton events. Parents and teachers try to inculcate good habits in their children and students, not only as an end in itself, but also in the hope that doing good in the spheres of character and morality will lead to doing well in the worlds of work, entrepreneurship, and commerce.

In this issue of *Religion & Liberty*, we take look at that question from various points of view. Our biblical feature examines the teaching about weights and measures in the Gospel. Being honest in measurement is the right thing to do in itself, but it also makes possible easy trade and free exchange; imagine the impossibility of having to verify that every package contains the indicated weight of flour, or sugar, or salt. Our "Double-Edged Sword" this issue comes from Rolf Geyling's submission to the Acton homiletics contest.

From the perspective of economics, not Scripture, we address some of these same questions with Professor Kenneth Arrow in our interview. For me, as a one time graduate economics student who read Professor Arrow's work, it was a thrill to interview him—and an honor for *R&L* to have a Nobel laureate in our pages. Professor Arrow shows how the existence of markets at all, let alone their efficient functioning, depends upon a fundamental honesty and trust amongst buyers and sellers. The market needs morality. And does the market encourage or discourage the morality it depends upon? I'll let you read Professor Arrow's answer for yourself.

Our own Michael Miller, Acton's director of programs, takes up the same question by revisiting an important book by Francis Fukuyama on the role of "social capital" in economic development. Fukuyama's book is not new, but his argument remains novel and important: Without trust, markets don't work well.

And finally, I might draw your attention to our review of John C. Maxwell's book *There's No Such Thing as "Business" Ethics.* Maxwell is one of the more popular authors in the field of business ethics which, judging by the number of new titles in the bookstores, is a booming market. He makes the argument that ethics in business is not terribly different from ordinary ethics in everyday life. Doing good is just plain good—for our souls, and for the economy.

Father Raymond

# Editorial Board



The Acton Institute for the Study of Religion and Liberty promotes a free society characterized by individual liberty and sustained by religious principles.

Letters and requests should be directed to: *Religion & Liberty*; Acton Institute; 161 Ottawa Ave., NW, Suite 301; Grand Rapids, MI 49503. For archived issues or to subscribe, please visit *www.acton.org/publicat/randl*.

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Kenneth Arrow

# The Economy of Trust

## An Interview with Kenneth Arrow

Kenneth Arrow of Stanford won the Nobel Memorial Prize for Economics in 1972, and has served as president of both the American Economic Association and the International Economic Association. In 2004, he was awarded the National Medal for Science, the United States' highest award for scientific achievement. A pioneer in the fields of social choice and welfare economics, Professor Arrow has also written in the fields of philosophy and ethics. He was invited to participate in the preliminary consultations during the drafting of *Centesimus Annus*, and later the Pontifical Academy of Social Sciences. He recently spoke with our editor, Father de Souza, in Rome.

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*What can the world of religion and ethics contribute to economics?*

The market has deficiencies of a kind for which ethics is a remedy. For example, the world is really filled with private information. There is inside information on products and in contracts. In these situations, there is a very strong possibility of one person using this information to take advantage of the other. If this happens frequently, a market may not exist at all because the buyers know that they don't know certain things, and that the sellers can exploit them. Therefore, it's not so much that there are potential unfair gains, but that such uncertainties about private information can make the market inefficient. In fact, if the problem is pronounced, the market may not exist at all. This is a situation that is studied particularly in insurance contracts; when the person insured may have private information about dangers unknown to the insurer, there is said to be "moral hazard" or "adverse selection," phrases in the last forty years that have been imported into economic analysis from insurance literature.

There are various ways of handling these cases. One of them is the existence of morality. It turns out that to a considerable extent, people spontaneously do avoid taking excessive advantage of their inside information, their private information. Part of it is an understanding that even though I would gain by cheating, it would bring down the market if everybody did it. Of course, there can be a problem if one person says, "Well, if I did it, nobody will notice." But then, if each person feels the same way the whole thing breaks down. Part of this behavior, though, is morality—the person doesn't cheat because he thinks it's the wrong thing to do. To get markets that work, you have to keep the other person from trying to cheat you at every moment. So morality is closely related to the workings of the market.

The other point, of course, is that people do have aims in life, and not just the grand achievement of material gains. They're concerned about others. This concern is the result of moral codes, which are developed and adopted through religion or through inculcation by other ethical sources. Certainly family relationships are marked by sacrifice. People are engaged in these relationships, and therefore, they devote their energies to acquire goods, not for the purpose of using them themselves, but for others.

So there are two aspects to this relationship. One relates to deep concern for others, and therefore touches upon the ends of economic activity. The other relates to the means of economic activity—the market. Morality plays a functional role in the operation of the economic system.

> "To get markets that work, you have to keep the other person from trying to cheat you at every moment. So morality is closely related to the workings of the market."

*Could it be argued that a certain amount of virtue of a basic kind—being honest, honoring contracts, providing accurate information—is required for a market to work? Is it a danger that prosperity can sometimes weaken those virtues? To become prosperous you need to be virtuous, but then does prosperity erode the foundations of virtue?*

I don't know if it's so much prosperity as the prospect of prosperity that's dangerous. When you see a large potential personal gain, you may tend to feel that your virtue stands in the way. Now there is always the question of whether you can get away with something or can cut corners. You may find the pursuit of the material goods becomes an end in itself. But if you're a chess nut, you can also be a fa-

*continued on pg 12*

Getty Images

# Trust and Entrepreneurship

by Raymond J. Keating

When it comes to business and the economy, the word *trust* has two—and to some people diametrically opposed—meanings.

Trust as a virtue in the marketplace means having confidence in the honesty, reliability, and integrity of market players. It speaks volumes about our free enterprise system that a stranger can walk into a small business, for example, that he has never patronized before, and yet generally trust that he will be served well, dealt with fairly, and will walk out the door with a product that does what it is supposed to do.

But trust also refers to a business organization whereby a group of trustees control one or more corporations. Trusts emerged in the latter half of the nineteenth century, and were accused of assorted market abuses, with antitrust laws emerging in response. Ironically, trusts came to signify, in popular terms at least, big bad business breaking trust (in the first sense) in the marketplace.

The virtue of trust is critical in a free-market economy, including for the risk taking —that is, entrepreneurship and investment—that drives economic growth forward. High degrees of trust must exist in the economic system, in the government, in businesses, and in consumers.

The entrepreneur needs to have trust in capitalism itself. While no outcome is guaranteed and the risks are formidable, the entrepreneur must trust that he will have a fair opportunity to pitch to investors and sell to consumers. Entrepreneurs and investors need to trust that their property will be protected and that they will have at least a shot at returns commensurate with their risk taking. Without such trust, an economy stagnates.

These foundational issues rely on whether we can trust government in its actions and its self-restraint. Can we count on the government to protect private property; maintain the currency; limit tax and regulatory burdens; enforce contracts; prosecute fraud; and leave production, price, and profit matters to competition and ultimately consumer decisions in the marketplace?

Indeed, it is most often when government fails to do its basic jobs, or reaches far beyond its core duties, that the economy falters. Weak property protections or the government actually usurping private property, runaway inflation, destructive levels of taxation or regulation, rampant crime, price controls, all rank as violations of trust by the government that undermine a market economy. Unfortunately, since government is guided so often not by principle but instead by politics, power, and pandering to various interests, politicians often do break that trust.

Fortunately, the private sector operates under a different set of incentives. No matter what one's ultimate motivation is, consideration must be given to others. In order to meet one's own needs and desires, one must first provide a good or service demanded by others. Failure to meet or create new demands, to be efficient, and to

> "Businesses have to be able to trust consumers.... If entrepreneurs and businesses produce goods and services in honest fashion, they should not expect to be sued."

offer the best quality at the lowest price mean losses and eventually going out of business. The free-market system of incentives and competition fosters trust in business among consumers.

But we often do not think about the fact that trust must flow in the opposite direction as well. Businesses have to be able to trust consumers. What does this mean? Today, it's largely about abuse of the legal system. If entrepreneurs and businesses produce goods and services in an honest fashion, they should not expect to be sued. Yet that most certainly is not the reality for American businesses. Trust has been broken in recent times, as lawyers have unjustly brought frivolous lawsuits against honest businesses, with the courts shamefully allowing such lawsuits to proceed and the government sometimes even participating as a litigant, as when various local governments brought lawsuits against gun manufacturers.

According to Towers Perrin-Tillinghast,

U.S. tort costs hit $260 billion in 2004. This equated to 2.22 percent of the GDP, compared to tort costs equaling 0.62 percent of the GDP in 1950. That's a 348 percent explosion in tort costs as a share of the GDP. And these costs do not include litigation avoidance costs, ranging from unnecessary and duplicative medical tests ordered by doctors as a defense against possible malpractice allegations, to the disappearance of certain products or whole industries from the marketplace because of high product liability costs.

In a June 1, 2006, story about small businesses being the target of unsavory lawyers, the *New York Times* noted:

> Litigation costs for small businesses can prove disastrous, if not fatal, because the companies survive on thin profit margins and lack the infrastructure to handle lawsuits, according to the Small Business Administration. An average civil case can cost $50,000 to $100,000 to litigate through to a trial, according to an October study conducted by the Klemm Analysis Group for the association.

Lawsuit abuse most certainly represents a breakdown of trust in the marketplace.

When trust is shaken, we ultimately must take a look at the morals and values that underpin society itself. No doubt, the rise of secularism and spread of relativism have had their effects.

A rejection of God also means a rejection of his commandments, including the commandment "You shall not steal" (Exodus 20:15). Martin Luther offered the following explanation regarding this commandment: "We are to fear and love God, so that we neither take our neighbors' money or property … but instead help them to improve and protect their property and income." With God and the moral imperative wiped away, however, this view can be easily replaced by the cynicism of what one can get away with without being caught by the customer, boss, shop owner, cashier, cop, or prosecutor.

Meanwhile, the phrase "I'll sue" has grown so commonplace that few seem to think twice about hauling others into court. St. Paul reprimanded members of the church at Corinth for bringing lawsuits against each other (1 Corinthians 6:7). As for responding to lawsuits, Jesus declared: "If anyone wants to sue you and take away your tunic, let him have your cloak also" (Matthew 5:40). This does not mean that we must suffer all abuses, but that lawsuits should be the rare exception and forgiveness the rule.

For many, the answers to receding lines of faith are expanding lines of government. But government action is not enough to secure trust. Eventually the required government enforcement in a society of lost trust would lead to a police-regulatory state, governmental abuse, and the loss of freedom. Even many Christians, however, go down the path of seeing big government as the answer to so many problems that come with a loss of trust. Yet, the psalmist wisely warns: "Put not your trust in princes" (Psalm 146:3). Christians should understand the sinful aspects of human nature, which are not suspended in government, but instead often are empowered through acquisition and concentration of power and by spending other people's money. When it comes to trust and the government, big is bad.

This brings us back to big in the market, namely, trusts. Were they really bad? An understanding of how the economy actually works and market developments in the nineteenth century tell a different tale about trusts than what many commonly believe today.

In his massive 1996 tome *Capitalism: A Treatise on Economics*, George Reisman explained that given the limitations of corporate law at the time, trusts were the means for accomplishing mergers. What were the actual results? Reisman notes that "the trusts played a major role in improving the efficiency of the economic system, and thus in raising the general standard of living… The era of the trusts was the era of America's most rapid economic progress and the transformation of the country into the world's foremost industrial producer and economic power."

So, the trusts of the nineteenth century actually did not break trust in the marketplace. Instead, they were rather fantastic examples of entrepreneurs who served consumers well. A sober assessment of their impact points to fulfillment of the trust placed in entrepreneurs.

In the end, Jesus instructs: "Trust in God" (John 14:1). From that trust comes a love and respect for our fellow man that creates the trust necessary for us to fulfill our work, our callings, in this life.

*Raymond J. Keating is an economist, a columnist for* Newsday *on Long Island, and also writes for* OrthodoxyToday.org.

Getty Images

# Second-Career Clergy and Parish Business

## An Interview with Jonathan Englert

In the 2002–2003 academic year, the journalist Jonathan Englert followed five seminarians through one year of seminary. Their stories are told in Englert's new book, *The Collar: A Year of Striving and Faith inside a Catholic Seminary*, published in April by Houghton Mifflin. In a phone interview, Jonathan Englert spoke with *R&L* managing editor, David Phelps about the relationship between business sense and the needs of parish life.

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*The seminary in* The Collar *is what's called a second-career seminary, a seminary for men who have come to their vocation later in life. Some of the seminarians featured in the work, like the retired marketing executive Jim Pemberton, come from significant careers in the business world. What are these men looking for in the priesthood, and do they make good priests?*

I think that at the center of that question is a mystery, right? What are they looking for? One of the reasons I called this book *The Collar* was because of the sense of these men being collared, being brought to a profession, being brought to this new life, and not always willingly. It's something that they sometimes struggle with.

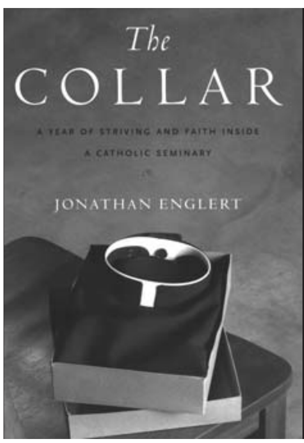
[But ultimately,] I think they are looking to serve. Jim Pemberton is a good example. He knows that he has all of this experience—life experience, but specifically business experience. He has four decades of working in a corporate environment, working on deadlines, working on large logistical planning, having a successful career. And one component of a successful career was, for him, time management. He used to tell me that having the corporate career gave him the ability to handle the diverse stresses that he knew he was going to be encountering as a priest. And it also was going to equip him with the ability to manage the parish finances and other parish issues that come up that most priests are going to have to handle.

But do they make good priests? I would say yes. Being a good business person is not necessarily essential to being a good priest, but it definitely gives them an edge in certain areas. You have to remember, there is a strong managerial function in today's priest. That wasn't always the case. Most priests now have to oversee large parish staffs and take up the slack to run various programs. And that managerial aspect is obviously well informed by having had a corporate career where they were in charge of large staffs and various projects.

*How do seminarians prepare to address the business of a parish?*

There are practical steps that they take. At seminary, they don't take Parish Business Management 101. But they do have frequent, usually weekly, meetings or seminars in which people come from outside of the seminary, people who are involved in ministry of some form. Sometimes they're priests, sometimes they're nuns who run programs at parishes, and sometimes they're lay people who run finance programs in parishes. So they encounter people who are bringing their life experience or their work experience in parishes to the seminary so that they can get a sense of what they're going to face.

But I think you're focusing on something that is very important: the managerial aspect of priesthood is going to become a lot more important as the numbers decline, because the priest is going to have to manage these large staffs that are going to be taking up a lot of the slack. Jim Pemberton definitely felt it's better to be a good man-




**The Collar**

by Jonathan Englert
Houghton Mifflin
320 pp. Hardcover $25.95
ISBN 0-618-25146-4

> "Being a good business person is not necessarily essential to being a good priest, but it definitely gives them an edge in certain areas. You have to remember, there is a strong managerial function in today's priest."

ager than a micro-manager. He came from business. He thought that if a young guy came into the priesthood, for example, who didn't have this business background, he might feel obliged to do everything, to run every aspect and be totally in control of every aspect of the parish work, even though it would be beyond his expertise. And Jim used to say, "Well, as a manager with all this experience, I know that there are things beyond my expertise. I know that there are things that people are going to do better than I can, and those people should be in those positions to do those things." His idea was that if in his parish he had a parishioner who wanted to get more active in the church, a CFO or an accountant for example, he's probably going to want to tap him for some fairly important role in dealing with the parish's finances.

He saw that [his managerial experience] gave him the ability to screen people, to figure out where they're going to do the best work so that he would be free to get to the hospital, say Mass, and hear confessions.

Author Jonathan Englert

# Acton FAQ

## *How does Acton communicate its ideas to the world?*

As a research and educational institution, the Acton Institute has always held that its advancement of a "free and virtuous society" must reach the widest possible audience to be effective. You don't change the world by shutting yourself up in an ivory tower.

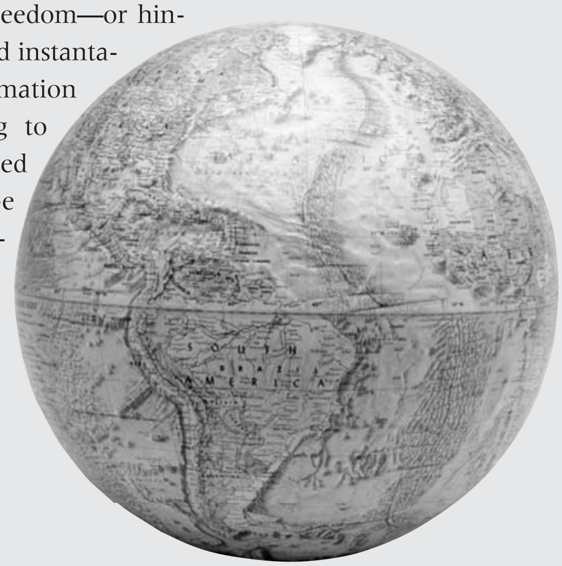
You may think of Acton's research, publication, and communications efforts as a spectrum that, on the one side, starts with serious, well respected academic work and, at the other, reaches into the popular media of newspaper commentaries, talk radio, and online media such as Web sites, blogs, and podcasts. Video will be an increasingly important tool for Acton in the future.

All of Acton's intellectual work is based on the firm foundation built by the institute's research department and its flagship publication, The *Journal of Markets & Morality*. Other communication vehicles include books, monographs, policy papers, *Religion & Liberty*, the *Acton Notes* monthly bulletin, and the weekly online *Acton News & Commentary* newsletter. Acton understands its various audiences, and reaches them where they are.

Why is this important? Because the "war of ideas" on religious, economic, and social issues is waged on many fronts. And very often, media such as television and film produce the most lasting changes in popular opinion and cultural attitudes. That's why left-liberal types like Michael Moore and Al Gore are in the documentary film business today.

Writing in 1949, the economist F. A. Hayek pointed out that socialism was a movement launched by an elite group of intellectuals who worked on newspapers and journals and communicated through speeches to convince the masses of the need for their program. "The character of the process by which the views of the intellectuals influence the politics of tomorrow is therefore of much more than academic interest," Hayek said.

Today, the ideas that advance freedom—or hinder it—are advanced globally and instantaneously with the latest information technologies. Acton is working to ensure that its message, needed now more than ever, will be heard in that raucous marketplace of ideas.



Kris Alan Mauren
Executive Director

# The Dividends of Social Capital

by Michael Miller

Why have so many countries been unable to fully adopt a market economy? The answer is complex, but there are certain basic conditions that must be met for an economy to become free and prosperous. Two that are non-negotiable are private property and the rule of law. Without these a market cannot exist. An educated workforce, low taxes, and minimal regulation are also helpful.

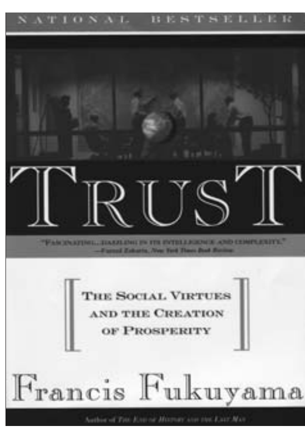
But there is another element that is crucial but often overlooked—it is what has been called "social capital," specifically the existence of trust. Francis Fukuyama makes this case in his 1995 book *Trust: The Social Virtues and the Creation of Prosperity*.

Why are trust and social capital so important for economic success? In a modern economy based on ideas, organization, and technology, a key element is human interaction—and here trust is essential. If a culture places importance on virtues that help create prosperity—honesty, fairness, personal responsibility, the importance of hard work, and respect for law—it creates an atmosphere of trust, which engenders spontaneous and voluntary collaboration and creates the conditions where business and entrepreneurship can flourish. If these virtues are not esteemed, or if trust exists only within familial or tribe relationships, it is difficult to organize and create businesses, and there is a greater need for the state to organize and maintain order.

Fukuyama gives the U.S., Germany, and Japan as examples of high trust societies, which explains their large private sectors and much of their economic prosperity. France, Italy, and Latin America on the other hand are "familistic" societies where trust outside of kinship is quite low. A country without a high degree of social capital finds it more difficult to collaborate and organize complex enterprises. Where trust is lacking, the cost of doing business increases and opportunities are lost.

Fukuyama argues that while the neo-classical model of economics is generally correct, it ignores the importance of culture—and I would add religion and a proper vision of the person. But while modern economists often miss this area, the classical economists from the late Spanish scholastics in the fifteenth and sixteenth centuries to Adam Smith understood that a market was composed of human persons acting together. The scholastic theologians and philosophers developed modern market price theory in the context of ethics and moral theology, and while not explicit, Smith presupposed a Christian society of shared values as the foundation of the market economy. His famous butcher, baker, and brewer example, meant to illustrate division of labor and the positive power of self interest, only works, of course, if the butcher knows that the baker is not a scoundrel. If the baker is not to be trusted, the cost of doing business increases. The butcher has to hire a lawyer to make sure that a contract is right, spend extra time and money reviewing the order, and possibly appeal to the legal authorities for recourse.

All of these are what economists call transaction costs. The higher the transaction costs, the higher the cost of doing business. But there are other losses that are hard to measure but no less real. Low trust and higher transaction costs mean more lost opportunities altogether. Widespread entrepreneurship cannot flourish in a society where trust is lacking because the risk is increased.




**Trust: The Social Virtues and The Creation of Prosperity**

by Francis Fukuyama

Free Press

480 pp. Paperback $16.00

ISBN 0-684-82525-2

Ten years ago Fukuyama warned that an increasingly individualist and litigious America would weaken its long-term economic possibilities. A sustainable free market cannot rest on an ethical framework that makes truth relative and exalts individualism. A society composed of "economic man" who cares for nothing but himself and his own consumption cannot long support a free economy. Strong families and a network of voluntary social relationships such as churches and service organizations are needed to maintain the social and organizational fabric of the free society.

Many view America as an individualist country, but as Fukuyama (and Tocqueville before him) correctly points out, this is historically incorrect. While they are anti-statist, they are in fact more communal and collaborative than the French, Italians, or Canadians, engaging in more voluntary associations and private charities. America is a land of entrepreneurship and private enterprise not because it is composed of atomistic individuals but because of Americans' propensity to trust one another to solve their problems and not to rely on the state to do it for them. An individualist and relativist America would not long be a prosperous one.

Social capital is also important for business ethics. A culture that values the social virtues results in decreased infringements because there are entire networks of relationships and shared values that frown on such behavior, creating an atmosphere of positive peer influence, which is more effective than the law—an outside authority.

Fukuyama has a powerful argument that requires our attention. Those cultures with high levels of trust have an economic advantage. In other words, economies benefit if the market can rely on the virtue of its participants.

*Michael Miller is the director of programs at the Acton Institute.*

# Double-Edged Sword:
## *The Power of the Word*

# Deuteronomy 25:13–16

*"You shall not have in your bag two kinds of weights, a large and a small. You shall not have in your house two kinds of measures, a large and a small. A full and just weight you shall have, a full and just measure you shall have; that your days may be prolonged in the land which the LORD your God gives you. For all who do such things, all who act dishonestly, are an abomination to the LORD your God." Deuteronomy 25:13–16*

This instruction is found in a large section of legislation given to the people of Israel as part of the covenant God initiated with them. In Deuteronomy, a code of behavior is set forth that articulates the nation's distinct relationship with God.

> It is among such [detestable] company that the law places one who cheats another out of a few cents in business.

Yet interspersed between these laws dealing with major issues, we find several regulations regarding what would be considered rather commonplace occurrences. This particular instruction deals with the basic flow of commerce. In the world of Deuteronomy, most every transaction in the marketplace involved using balancing scales with standardized weights to measure out quantities of goods for buying or selling. It could be very easy to increase profit margins surreptitiously by altering the weight of one's stones, using a heavier stone to get more for one's money when buying and a lighter stone to give customers less for theirs. Obviously this is not ethical, but one might question how much might be gained by such a practice as the fraudulent stones had to be close enough to the standard weight to convince the other party that the transaction was legitimate. The gains per transaction probably amounted to a very incidental amount, making this the kind of offense that would give rise to some head-shaking with the acknowledgement that, while wrong, it is not *that* big a deal, as many might have done it.

But it is important for us not to rationalize such infractions, because Scripture assigns them gravity. Verse 16 does not say: "It's not that big a deal"; instead it says: "all who do such things, all who act dishonestly, are an abomination to the Lord your God." This is strong language—an *abomination*? There are other practices in Deuteronomy that are described as abominable, practices with a more readily identifiable detestable nature such as sorcery, idolatry, and offering children in pagan rites. It is among such company that the law places one who cheats another out of a few cents in business. Such an action is an abomination to God, it is repugnant to him and an insult to his character if one names his name, yet engages in this practice. —*A submission by Rolf Geyling.*

Jennifer Roback Morse

# Defending the Weak and the Idol of Equality

by Jennifer Roback Morse

*The Acton Institute has begun a series of lectures—eight in Rome and one in Poland—celebrating the fifteenth anniversary of* Centesimus Annus, *Pope John Paul II's landmark social encyclical. The lecture series started in October of 2005 and will continue through 2007. For the next year*, Religion & Liberty *will feature excerpts from these conference lectures*.

*The following is taken from* Catholic Social Teaching on the Economy and the Family: an alternative to the modern welfare state, *delivered on January 21, 2006, at the Pontifical North American College in Rome*.

People unfamiliar with Catholic social teaching may be surprised to learn that the church has consistently condemned socialism. The Catholic Church has never embraced "equality" the way socialism has. The church is not indifferent to the poor. Rather, the church proposes an alternative principle for helping them. Instead of "make everyone equal" as a guiding premise, the church proposes "defend the weak" as the appropriate posture toward the poor. These approaches have different factual foundations and distinct policy implications, especially with regard to society's most basic institution, the family.

Beginning with Leo XIII and continuing until John Paul II, the church has consistently condemned socialism. Leo XIII realized that the godlessness of socialism is not an incidental flaw in an otherwise noble ideal. Godlessness is at the core of the ideology because socialism created idols out of the state and the idea of equality. This creates deep and subtle problems. While the state is a necessary institution, it is a limited institution, incapable of solving every human problem. By replacing God with the state, socialists will almost certainly over-empower the state and take even its legitimate functions to illegitimate extremes.

In Leo XIII's words from *Rerum Novarum*, "Let it be laid down in the first place that a condition of human existence must be borne with, namely that in civil society the lowest cannot be made equal with the highest." Leo understood that creating economic equality was a fool's errand. While it is true that some forms of inequality are unjustified, a certain amount of inequality is inevitable and even justified. By making equality the *summum bonum* of society, socialists take the noble ideal of compassion for the poor and twist it into a form of idolatry.

The church's alternative to the idolatry of equality is the defense of the weak. As John Paul said in *Centesimus Annus*, "Leo XIII is repeating an elementary principle of sound political organization, namely, the more that individuals are defenseless within a given society, the more they require the care and concern of others, and in particular the intervention of government authority."

Focusing on the weak is realistic in a way that focusing on inequality is not. All of us begin our lives as helpless infants, completely dependent on the care of others for our survival. If we are lucky, we live long enough that we again need the assistance of others just to manage our basic bodily needs. In between, all of us get sick some of the time and temporarily need help. Any of us could get a bump on the head that would render us permanently dependant on others.

The progression from infancy to adulthood is not some freak occurrence that could be somehow eliminated by proper social engineering. This is the story of every human life. Aging, accidents, and illness can never be eliminated either. Yet our modern world, it is safe to say, is profoundly uncomfortable with weakness and dependence. We fear it in ourselves. We tend to distance ourselves from it in others.

> "The church's alternative to the idolatry of equality is the defense of the weak."

Jesus told us, "The poor you will always have with you." It is not possible to eliminate completely all differences in the material conditions of every person in society, as the socialists propose. At the same time, the continued existence of the weak demands a continual response from the Christian.

It is now abundantly clear that "defend the weak" is a very different ethical mandate

from "create equality." For equality is not a stand-alone objective that always and everywhere legitimately takes priority. Equality requires a referent. The political system must make some judgments about who must be equal to whom, for what purposes, and in what contexts.

As the socialist impulse has unfolded throughout the industrialized world, many people have been necessarily excluded from its concern with equality. The young cannot be made economically equal to the old, so the young are excluded from the labor market. The non-voting immigrants need not be made equal to the native-born citizens.

Even more chillingly, the physically weak and incapacitated can never be made equal to the strong. Throughout the world, where equality has been made into an idol, powerful political forces operate to completely exclude these people from the most basic protections of law. In the Netherlands, "voluntary" euthanasia—which is not always voluntary—relieves society of the ill and the old. And of course, the infant in the womb has been excluded in many secularized countries from any legal protections whatsoever.

One of the most destructive applications of political equality is the drive to make men and women equal. This essentially political impulse has poisoned relationships between men and women inside the family and in the public square. Modern women believe they do not need husbands for financial support or any other kind of help. Young parents seem surprised to find that mothers and fathers are not truly interchangeable. Society is on the verge of claiming that gender is an irrelevant category for marriage, for child-rearing, or even for sex itself. In other words, there are voices in our modern culture trying to convince us that we ought to be indifferent as to whether we prefer a same-sex partner to an opposite-sex partner. This is truly equality gone out of control.

> "Throughout the world where equality has been made into an idol, powerful political forces operate to completely exclude these people from the most basic protections of

The Catholic vision of the family sees men and women as complementary to each other, not as competitors with each other. Marriage is inherently a gender-based institution, because it helps men and women bridge the natural differences between them. Marriage is the school and household of love. Within the household, men and women learn to help each other, to cooperate with each other, and to understand each other. This is a very different vision than the image of husbands and wives at each other's throats, in competition for dominance and power inside their own homes.

Catholic social teaching insists on supporting the family, economically and politically. Catholic social teaching defends the family as a pre-political reality independent of the state and with claims against the state. In *Centesimus Annus*, John Paul reiterates this point, originally made by Pope Leo XIII in *Rerum Novarum*. "

> He (Leo XIII) frequently insists on necessary limits to the state's intervention and on its instrumental character, inasmuch as the family and society are prior to the state, and inasmuch as the state exists in order to protect their rights and not stifle them.

The ethical principle of defending the weak places distinct demands upon us as individuals and as a society. The Catholic vision respects the family as the great pre-political social institution, and marriage as the most basic unit of social cooperation. The family can accommodate the inherent inequalities across the generations and across the sexes. Inside the family, the strong are naturally inclined to take care of the weak.

By contrast, the state plants itself firmly against the organic reality of the family. The state demands the right to redefine the family in the name of equality. Equality for women means unlimited legal entitlement to abortion. Marriage equality has come to mean any combination of adults, participating in any form of sexual activity, for any length of time, with or without the possibility of begetting children.

Equality for adults means misery for the weak. It is time to abandon the quest for equality. Defending the weak should be our guiding Christian principle.

*Jennifer Roback Morse, Ph.D. is a senior fellow in economics at the Acton Institute. She can be contacted through her Web site,* www.jennifer-roback-morse.com.

natic about playing chess in a way that gets in the way of doing good deeds.

Beyond a certain point, material goods can be symbols of success, but they can't really improve your life very much. Yet somehow these things have a way of becoming necessities. This is a real phenomenon. A number of psychologists and economists influenced by them have been arguing that happiness, whatever it may mean, is all relative to a previous standard of living. Relatively speaking, if you ask people, what they need to be thoroughly happy or how much income they need to really be thoroughly satisfied in an economic sense, they will typically answer 20 percent more than they've got now.

So while it's hard to define these terms and some economists don't like to make comparisons to which they can't give definite meaning, the typical thing you find is that rich people are happy and poor people not all that much less happy. If you compare countries, the average happiness in poor countries is the same as that in rich countries. (I'm not talking about extremely poor countries.)

One of the most striking things to me is some surveys [that measure happiness] that were done in Japan every few years, and, if I remember the dates, the answers in 1958 to 1988 were roughly the same. If you draw the curves relating happiness to income, you could not tell them apart. Now that was one of the most rapid periods of economic growth any country has ever experienced. They were pursuing material goods very, very vigorously. The pursuit of material goods may have very little to do with satisfaction.

On the other hand, divorce shows up as a big negative factor in measuring happiness. Material possessions play a role in happiness, I think, but it's just a role.

The danger of excessive reliance on the market, excessive perception of the market, is that it will obscure these other, clearly more fundamental courses of happiness or unhappiness. If you spend all your time at this instead of building up your relationships, there can be a real price to pay.

*A temptation of any academic discipline—especially in the social sciences, but also in the natural sciences—is to explain more than the discipline is competent to do. Are there areas of economics today that you think are overstepping its limits? And then, to what degree does the world of metaphysics, philosophy, and theology point out that there are areas beyond the market, beyond economic analysis?*

Well, I think you're asking two quite different questions. One is the use of economic explanations for things that you think of as part of other social science fields. It's true that economists do have something to say about other fields. Here the problem is that you get one-sided views—namely the economic perspective alone. You are not getting irrelevant statements; they are not meaningless statements, but just one-sided or incomplete. For example, some of the claims of economics about motivation, if correct, are applicable in other fields, and that was already pointed out when the utility theories were being developed in the 1880's and 1890's.

We see, by the way, that today psychology is invading economics—the whole field of behavioral economics. I believe that sociology should play more of a role in economics than it does. The way people behave in economics is partly influenced by how other people behave. It's easy to point out examples, but it's not so easy to construct a broad theory.

You raise a different question when you ask if things like metaphysics, theology, and moral philosophy play a role. Now you're coming to the question of the realm of value versus the realm of description. It's clear there are value questions of how one "ought to act" that are not going to be answered by a description of how people do it. Economics is not going to answer that question because it can't answer it. It's just a logically different thing.

We draw on religious sources about how one should act. We used to have, in the Middle Ages, very elaborate regulations of commerce—what was permissible commercial behavior and what is not permissible commercial behavior—derived from

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the laws on usury, the apparent prohibition on interest, [etc.] And the same thing is happening in Islamic law now, according to things I've read. There is the so-called Islamic banking, which claims not to charge interest—but does, as had happened in the Christian world also.

*Does social analysis today neglect the question of the intermediate, private charity collective action through churches, through families—these kinds of transactions that are not strictly speaking private and not for state?*

I don't want to say this is a void field, but I think the tendency when anyone thinks of a policy is that either individuals should do it for themselves or the state should do it. I'm struck by the fact that there are a number of situations where the policy expert doesn't understand that there are other institutions. There are many cases where these other institutions are probably superior, because the state has constraints on its actions, even the ideal state, leaving aside corruption and things like that. The state has to treat people in some uniform way. You don't want the state to start making too many distinctions or the potential for corruption or unfairness arises. So you have rules. Well, these rules tend to be broad and not very applicable to particulars. They don't take account of the individual case. In a way, you don't want them to, but that means that their effectiveness is reduced and something more flexible can be achieved by using intermediate institutions.

For instance, we have such institutions for distributing resources—what we call charitable groups. But such institutions also exist for agitation to bring matters to the public concern, changing people's values. I think the church is playing this major role in dissemination of these values and judgments and forming a focal point for them.

*Your Jewish faith has a rich tradition of moral consideration, both moral philosophy and moral theology, and a very sophisticated Biblical vision of what the economic life of the Chosen People would look like. For someone who is at the very peak of his field in economics, what lessons have you picked up from nearly twenty years of frequent contact with Christians, and particularly Catholics, thinking about these things?*

Well, I've been really concerned about ethical questions for a long time. I generally try to write things I feel sure about. As I get older, I'm a little more speculative and start to stimulate other people to think more about it. I think one of the critical things is the idea of what's called *tzedakah*, loosely translated as charity. It's the idea of responsibility for the welfare of others. Of course, then the problem comes, how do you institutionalize that? How do you get people to take these general beliefs and translate them into their own actions? And that's why collective actions of all levels play a role.

Like most economists, I find the market a very powerful instrument for achieving efficiency. We're not wasting things. We're not wasting resources. So whatever gets there, gets there. Nevertheless, there are a lot of limitations. For instance, there are intrinsic limitations like the kinds I sketched out earlier because of the existence of private information.

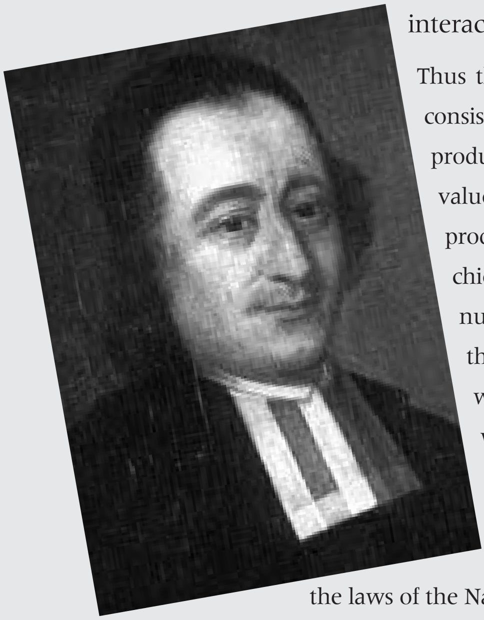
Religion calls for a sense of responsibility to the other, which the market, in principle, doesn't have. In fact, the markets do have it because they need fairness and efficiency to some extent. Yet the logic of markets means that such considerations have to be modeled as totally self-regarding, and people are not totally self-regarding. It's helpful to model them in that way, I'm not going to deny that; but it's not the set of values by which you want to live. Those values have to come from elsewhere, and this is what is emphasized by Christian and Jewish thought about the economy.

# Anders Chydenius [1729–1803]

> "The more opportunities there are in a Society for some persons to live upon the toil of others, and the less those others may enjoy the fruits of their work themselves, the more is diligence killed, the former become insolent, the latter despairing, and both negligent."

Known as the Adam Smith of the North, Anders Chydenius laid out his economic prescription for mercantilist [Sweden-Finland] in *The National Gain* in 1765, suggesting a concept of spontaneous order eleven years before Adam Smith in *The Wealth of Nations*: "Every individual spontaneously tries to find the place and the trade in which he can best increase National gain, if laws do not prevent him from doing so."

For Chydenius, freedom and diligence were the foundations of an economically prosperous nation; direction from the government only gummed up the gears of a natural system of human interaction.



> Thus the wealth of a Nation consists in the multitude of products or, rather, in their value; but the multitude of products depends on two chief causes, namely, the number of workmen and their diligence. Nature will produce both, when she is left untrammeled … If either is lacking, the fault should be sought in the laws of the Nation, hardly, however, in any want of laws, but in the impediments that are put in the way of Nature.

Pastor, politician, writer, doctor, scholar, scientist, experimenter in plant and animal husbandry, economist, musician, proponent of freedom and enterprise—Chydenius was a renaissance man in the Age of Enlightenment, careful to root his ideas on human dignity in divine providence. Chydenius asked:

> "Every individual spontaneously tries to find the place and the trade in which he can best increase National gain, if laws do not prevent him from doing so."

> Would the Great Master, who adorns the valley with flowers and covers the cliff itself with grass and mosses, exhibit such a great mistake in man, his masterpiece, that man should not be able to enrich the globe with as many inhabitants as it can support? That would be a mean thought even in a Pagan, but blasphemy in a Christian, when reading the Almighty's precept: 'Be fruitful, multiply and fill the earth.'

*The National Gain*, written originally for the Stockholm Diet in 1765–66, caused Chydenius's own party to exclude him from future representation. Chydenius retreated into his parish work until 1778 where once again he challenged the Diet with his advocacy for workers' rights, later set down in a letter to the Royal Economic Society:

> The Creator only put people to work, but did not stipulate the type of work each of them should do. Stealing was the only thing that the Almighty prohibited, but no target was set for diligence, how far it was allowed to go or what sort of things such diligence produced. He did not tie anyone to the plough nor did He tie anyone to trade guilds but merely when and where each one perceived how best to make a living where he could better himself.

# Fairness in the Market

How, in a market setting, can you be assured that you are getting a good deal? We all know people who distrust every price, believe that most business people are concealing something important, and have a vague suspicion that every enterprise is a racket.

These people might have a bias, but they do serve a market function. Business must always be aware that its promotionals and marketing plans must be balanced against the need to inspire trust always. It is a business asset like no other, and those who foster it thrive, while those who do not lose out.

But we need to be aware that the price of goods on the market is not fixed by some eternal law but rather by fluctuations based on supply and demand. There is nothing in the structure of the universe that makes paper towels pennies a piece, dish towels a dollar, and linen tea cloths as high as fifty dollars. These prices are a result of the item's relative scarcity and its relationship to the intensity of consumer interest.

What is a good deal? It is the point at which buyer and seller agree and exchange property titles. That is all. That is why the medieval theorists who looked into this matter concluded that the "just price" and the "just wage" are identical to the market wage provided there has been no force or fraud and good faith is being shown by all parties.

Consider what the old classical economists termed the "diamond-water paradox." Why does water, which is necessary for life, sell for so much less than a diamond, which is not necessary? It has to do with their relative abundance, for the situation would be completely reversed in a desert where water is hard to come by.

To be sure, we make a grave error if we conflate the value of something with its price. Some goods and services of infinite value sell for a very low price (I'm thinking here of some books of prayers I've found in thrift stores for pennies!) while some high-price items have very low value when considered in a moral sense. But the job of the market is not to provide an objective measure of moral worth, but merely to produce and allocate demanding goods and services with an eye to efficiency.

The price provides us a signal to conserve resources. We waste resources that are low in price, while we conserve resources that are high in price. We don't often think about the extent to which our lives are managed with such signals in mind. But if you travel to less developed countries, you find that what Americans routinely toss out sells for a very high price in poor countries.

Does this make Americans wasteful or even immoral, as many commentators claim? Not as a general rule. What is conservation and what is waste can only be measured by the price system in a market setting. As economies develop, the prices of necessities fall, provided the system is working as it should.

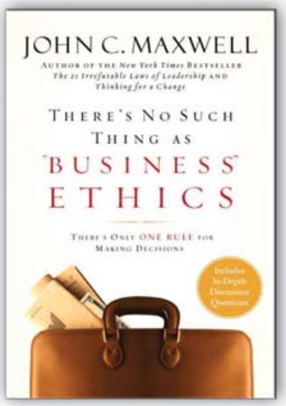
> "The market economy is driven by dynamic change and innovation…it becomes all the more important, then, that our sense of what is right and true be fixed with an eye to eternal concerns."

Actually the Bible is filled with stories that involve fluctuating prices. I'm thinking of the parables of the laborers in the vineyard, the pearl of great price, and the treasure in the field. All involve surprising turns of events reflected in price changes.

The market economy is driven by dynamic change and innovation, and this can sometimes be destabilizing to our way of life. It becomes all the more important, then, that our sense of what is right and true be fixed with an eye to eternal concerns. It is morality that is our Rock of Gibraltar in a changing world.

*Rev. Robert A. Sirico is president of the Acton Institute for the Study of Religion and Liberty in Grand Rapids, Michigan.*

# Reviews




## There's No Such Thing as "Business" Ethics

By John C. Maxwell • Warner Faith, New York, NY, 2003
160 pp. • $14.95

### Review by Sarah Salb

The wave of recent corporate scandals has spurred an increased interest in business ethics. As illegal and unethical behavior is exposed in the business world, society has demanded reform.

In his book, *There's No Such Thing as "Business" Ethics*, John C. Maxwell firmly contends that there is no difference between business ethics and general moral behavior. "There's no such thing as business ethics," writes Maxwell, "there's only ethics. People try to use one set of ethics for their professional life, another for their spiritual life, and still another at home with their family… If you desire to be ethical, you live it by one standard across the board." He believes that people behave unethically because of the convenience and the desire to win no matter the cost. In addition, people rationalize their choices with relativism by choosing their own ethical standards to guide their behavior.

To guide the ethical mindset and establish an "integrity guideline," Maxwell stresses the Golden Rule, a principle rooted in many diverse cultures, ranging from Judaism to Zoroastrianism: one should not do onto others what they would not want done to themselves. Maxwell believes that people need to have firm ethical principles guiding their personal lives and shaping their characters, and must translate this behavior into all other aspects of their lives as well.

Part of the beauty of the Golden Rule is its simplicity and universality. It applies to anyone, in any given circumstance. Maxwell explains how the rule is intuitively correct, since no one wishes to be treated worse than he treats others. By valuing others and treating others the way you want to be treated, everyone wins. The Golden Rule not only gives direction and guides business endeavors, but also builds character and helps one lead a more productive life. It is essential that ethical standards be absolute in order to foster a sense of integrity and responsibility.

Using numerous examples, Maxwell tries to convince the reader that adhering to the Golden Rule is a necessary component of success. He substantiates his point by showing how the long-lasting profitable companies do follow strong ethical standards. Synovus, for example, is ranked in the top ten of the 100 Best Companies to Work For in America and has had one of the highest stock returns on the New York Stock Exchange in the past two decades. In contrast, those that compromise on ethical standards often lose out on the long run, as exemplified by the Enron case. The company demanded that profits be shown every year by booking future revenue immediately, and thus needed to keep booking more deals each year to maintain gains.

The concentration on ethics in an organization needs to be genuine and not watered down. When companies implement business ethics courses solely for external purposes, to avoid or mitigate legal persecution, they are ineffective in establishing true integrity in the workplace. Maxwell also claims that five factors undermine the Golden Rule and can cause ethical violations: pressure, pleasure, power, pride, and priorities. He then suggests a rule that goes above and beyond the call of duty of the Golden Rule—the Platinum Rule. This principle obliges one to go the extra mile in dealing with others. Maxwell exemplifies the Platinum Rule with an occurrence during the 1964 Winter Olympic Games. Italy's driver for the two-man bobsled competition, Eugenio Monti, donated a bolt from his sled to Tony Nash of the competing British team, though it cost his team a medal.

Maxwell reiterates his underlying message at the end of the book. He writes, "Those who go for the Golden Rule not only have a chance to achieve monetary wealth, but also to receive other benefits that money can't buy." Although slightly repetitive and simplistic, the book is direct and straightforward with a clear message. Since Maxwell includes a number of thought-provoking questions after each chapter providing the reader with a chance to reflect on the chapter's content and apply its principles, *There's No Such Thing as "Business" Ethics* might prove useful as a springboard for discussions of business ethics.

*Sarah Salb is a recent graduate of the CUNY honors college at Brooklyn College.*