Ethics & Public Policy Center

Neo-Scholastic Economics, Economic Policy and Catholic Social Doctrine

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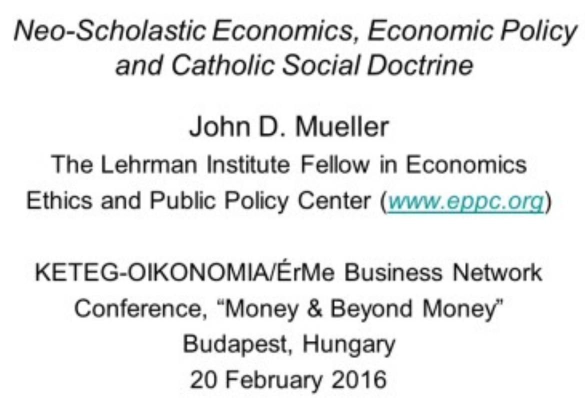

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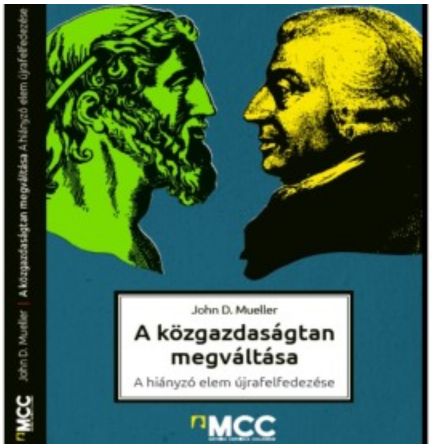
My thanks to KETEG (Christian Social Principles in Economy), especially to Sr. Laura Baritz and Gergely Dabóczi, and to József Tóth of the ÉrMe Business Network for organizing this rich and timely conference, as well as the conference's sponsors and patrons, including MKB Bank, the Government Debt Management Agency, the Hungarian National Bank and Corvinus University.

In my remarks I'd like to accomplish three things. First I'd like to explain how the original Scholastic Economics differed from both Adam Smith's later Classical economic theory and today's Neo-Classical Economics, which succeeded it starting in the 1870s; second, how an updated version, "Neo-Scholastic Economics," is already reshaping our understanding of secular economic theory and offering new policy solutions; and finally, how Scholastic Economics provided the analytical "toolkit" for the much younger body of Catholic social doctrine.[1]



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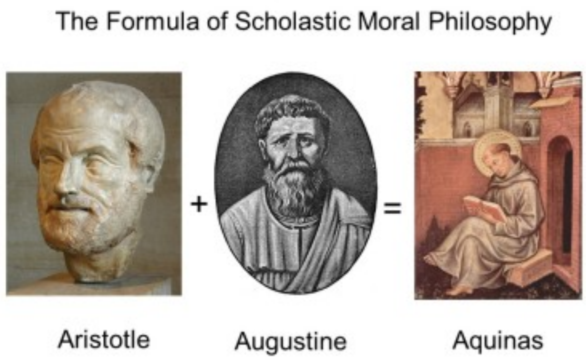
J. Daniel Hammond of Wake Forest University opened a review of my book, which was published in Hungarian earlier this week by the Mathias Corvinus Collegium, by remarking, "*Redeeming Economics* is likely to be ignored by economists"; but then gave this admirably succinct summary:

> What, according to Mueller, is wrong with economics? In the simplest terms familiar to economists, there is an "equation" missing from the model. Economists have "equations" for production, consumption, and exchange, but not for the primary economic choice – the choices of persons. This missing element is a theory of distribution. Mueller argues that Thomas Aquinas had a complete economic model, with all four elements. Drawing on Aristotle and Augustine, Aquinas's economics explained production (what is produced and how), consumption (utility), exchange (commutative justice), and distribution (production or purchase for whom).
>
> Adam Smith, the father of modern (classical) economics, dropped two of the four equations, those for consumption and distribution. With neoclassical economics the equation for consumption was restored. But neoclassical theory has nothing to say about distribution, leaving the restoration of economics incomplete. Mueller sees this reconstruction (redemption) continuing with his book, with the efforts of other nascent neo-Scholastics and, he predicts, eventually by the profession at large. Thus Mueller himself does not think his book will be ignored. Or perhaps, if it is ignored the deficiency of economics will become evident to practitioners from their experiences doing economics. Mueller expects that economists will find their way to a neo-Scholastic economics that will preserve the best of both Smith and the neoclassicals, while restoring the theory of distribution. (Hammond 2012, 73).[2]

Mine is indeed the latter view: that "the deficiency of economics will become evident to practitioners from their experiences doing economics" so that "economists will find their way to a neo-Scholastic economics that will preserve the best of both Smith and the neoclassicals, while restoring the theory of distribution." The technical problem is that with fewer equations than variables to be explained, the classical and neoclassical systems are "underdetermined," thus requiring economists to adopt circular logic or empirically false assumptions (or both). I realized this by the accident of becoming an economic and financial market forecaster, which requires spelling everything out mathematically and verifiably. But in terms that most ordinary people can understand, the scholastic, classical, and neoclassical systems presuppose three different views of human and divine nature, differing on whether man and God have free will.



Scholastic economics (1250-1776) might be called “AAA” economics because it began when Aquinas first integrated four elements (production, exchange, distribution and consumption), all drawn from Aristotle and Augustine, to describe personal, domestic and political economy within scholastic natural law—all normatively measured by the Two Great Commandments: “You shall love God with all your heart” and “You shall love your neighbor as yourself.”[3] The scholastic economic system is comprehensive, logically complete, can be stated mathematically and (suitably updated) is empirically verifiable.[4]

Since Adam Smith essentially “de-Augustinized” economics, it’s important to understand Augustine’s theories of benevolence and beneficence, which Aquinas integrated within the scholastic natural law moral philosophy and economic theory, which prevailed for five centuries before Smith.[5]

Augustine’s Personal Economy

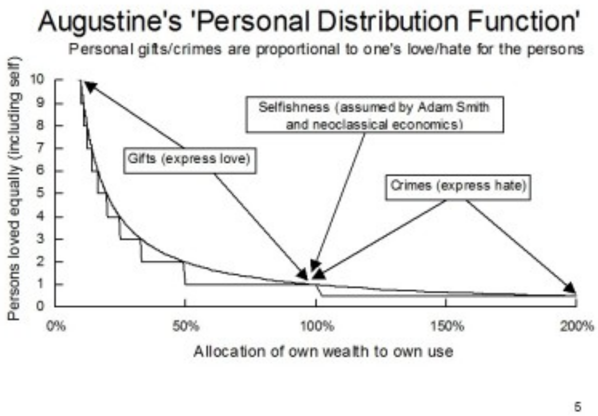
Premises: 1. All persons motivated by love of some person(s).
2. Love is willing some good to some person (Aristotle).
3. We express personal love/hate by our distribution of goods.

Descriptive (“positive”):		Outer Acts *toward*:	
Kind of love	Inner Act	Self	Others
Ordinate	Benevolence	Utility	Beneficence (Gifts)
Inordinate	Malevolence	Vice	Maleficence (Crime)

Prescriptive (“normative”): Two Great Commandments*
Standard of *benevolence* (“goodwill”): negative Golden Rule (“Do not do unto others” = Aristotle’s ‘justice in exchange’)
Standard of *beneficence* (“doing good”): positive Golden Rule (“Do unto others” = personal gifts, distributive justice)

*“Love . . . God with all your heart” (Deut. 6:5); “love your neighbor as yourself” (Lev. 19:18) 4

Augustine’s anthropology and theology had both started from Aristotle’s insight that “every agent acts for an end”[6] and Aristotle’s definition of love—willing some good to some person.[7] But Augustine drew an insight that Aristotle had not: every *person* always acts for the sake of some *person(s)*. For example, when I say, “I love vanilla ice cream,” I *really* mean that I love *myself* and use (consume) vanilla ice cream to express that love (and in preference, say, to strawberry ice cream or Brussels sprouts, which order reflects my separate scale of utility).[8]



So Augustine's crucial insight is that we humans always act on not one but two scales of preference—one for persons as ends, and the other for other things as means: the scales of personal love and utility, respectively. And we express our preferences for persons with two kinds of external acts, "sale or gift."[9] Generally speaking, we *give* our wealth without compensation to people we particularly love,[10] and *sell* it to people we don't, in order to provide for those we do love.[11] Since it's always possible to avoid depriving others of their own goods, this is the bare minimum of love expressed as *benevolence* or goodwill, the measure of what Aristotle called "justice in exchange."[12] But our positive self-love is expressed by the utility of the goods we provide ourselves, and our positive love of others with *beneficence*: gifts. Conversely inner hate or *malevolence* is outwardly expressed by the opposite of a gift: *maleficence,* or crime: instead of giving to you what belongs to me, I take or destroy what belongs to you.

How the Structure of Economics Has Changed (1): Simplified

Element / Outline	Distribution	Consumption	Production	Exchange
Scholastic (1250-1776) Thomas Aquinas	Yes	Yes	Yes	Yes
Classical (1776-1871) Adam Smith	**No**	**No**	Yes	Yes
Neoclassical (1871-c. 2000) Jevons, Menger, Walras	**No**	Yes	Yes	Yes
Neoscholastic (c. 2000- ?) Scholastic outline, elements updated	Yes	Yes	Yes	Yes

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This understanding of economics entails an alternate view of the history of economics; hence my book begins with a "Brief Structural History of Economics," which describes and distinguishes the scholastic, classical, and neoclassical theories, as well as the incipient "Neoscholastic" school.[13]

How the Structure of Economics Has Changed (2): Detail

Outline \ Element	Distribution (Gifts/crimes & distributive justice)	Consumption (*type of utility*)	Production (people/property)	Equilibrium ("justice in exchange")
Scholastic	Yes/Yes	Yes (*ordinal*)	Yes/Yes	Yes
Classical	**No/No**	**No**	Yes/**No*** (*"labor theory")	Yes
Neoclassical	**No/No**	Yes (*mixed*)	Mixed	Mixed
Austrian (Menger)	**No/No**	*ordinal*	**No****/Yes	**No** (Mises)
British (Jevons)	**No/No**	***cardinal***	**No***/Yes	Yes
Chicago (Schultz)	**No/No**	***cardinal***	Yes/Yes	Yes
Lausanne (Walras)	**No/No**	*ordinal*	**No****/Yes (**"stork theory")	Yes
Neo-Thomist	Mixed (domestic	Yes (*cardinal*)	Yes (all)	Yes
Solidarist (Pesch)	& political only)		Mixed (tangibles	
Distributist (Belloc,	Political only	**No**	only; 'labor theory')	Yes
Chesterton)	Yes/Yes	Yes (ordinal)	Yes (all)	Yes

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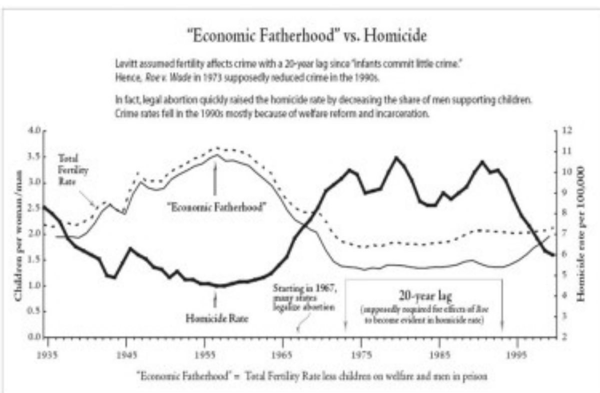
But the same analysis distinguishes among schools, such as the Austrian, British, Walrasian, Distributist or "neo-Thomist" schools, and even among individual economists.[14]

Aristotle had bisected moral philosophy into ethics and politics. But scholastic philosophy and economic theory followed Thomas Aquinas, who re-divided them into three parts[15]: Hence the middle three sections of *Redeeming Economics* are devoted to personal, domestic, and political prudence, or "economy."



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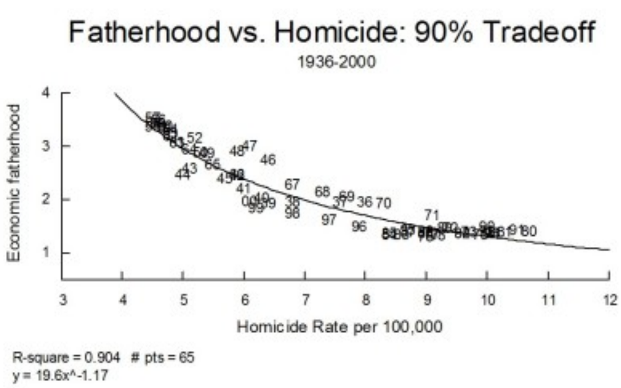
In each chapter, after re-stating and updating the scholastic economic theory, I focus on a salient practical application in which neoclassical and neoscholastic economics reach divergent empirical predictions–for example, at the personal level, disproving the famous claim by economist Steven D. Levitt, featured in his mega-bestseller *Freakonomics,* that the U.S. Supreme Court's legalization of abortion in 1973 caused the crime rate to fall 15-20 years *later*, by eliminating potential criminals (Levitt and Dubner 2005, 117-144).



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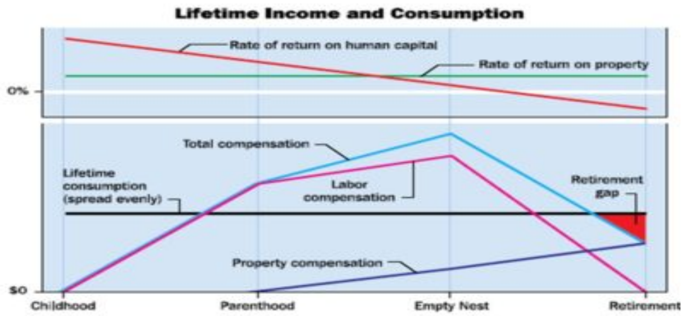
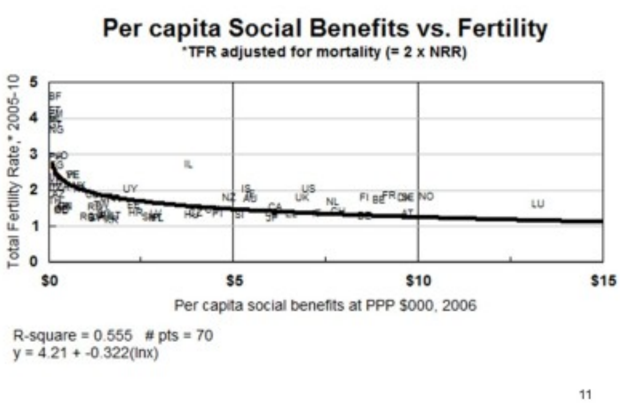
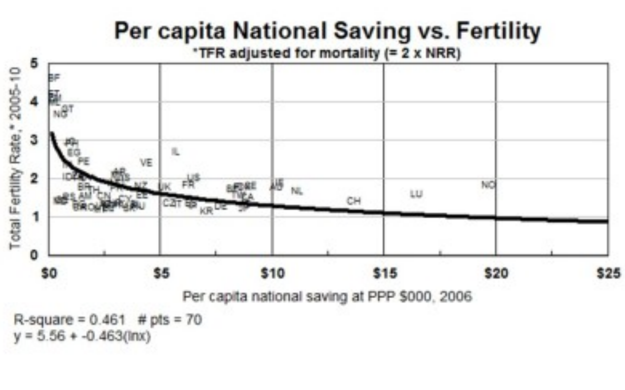
Actually, as I show, there is a 90% *current, inverse* relation between "economic fatherhood" and homicide. The data show that legalizing abortion raised crime rates both immediately *and* with a lag.



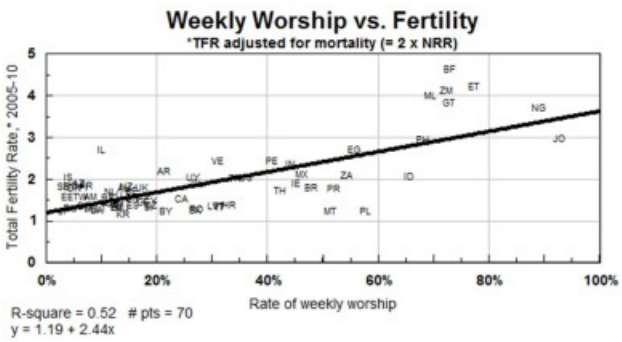
"Neoscholastic" fertility model. Turning to domestic economy, what I call "neoscholastic" economics differs from neoclassical economics by recognizing gifts as well as exchanges. Pervasive gifts are reflected in the systematic differences between income and consumption at each stage of life. This also makes the "neoscholastic" fertility model much more accurate than existing neoclassical models. Just four factors explain most variation in birth rates among the 70 countries for which sufficient data are available (comprising about one-third of all countries, but more than three-quarters of world population).[16]





The birth rate is strongly and about equally *inversely* proportional to per capita social benefits and per capita national saving (both adjusted for differences in purchasing power), which represent provision by current adults for their own well-being.

When these factors are taken into account, a legacy of totalitarian government is also highly significant, reducing the birth rate by about 0.6 children per couple.



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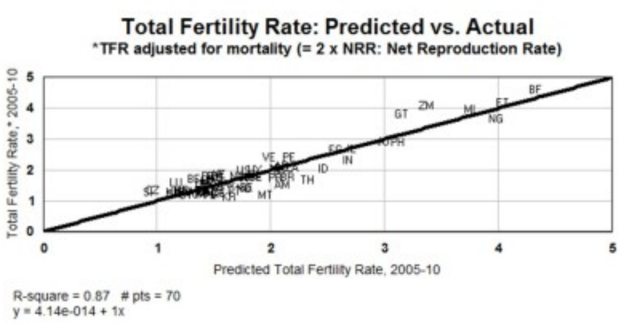
Finally, the birth rate is strongly and *positively* related to the rate of weekly worship. This is because all gifts of scarce resources—whether rearing a child or worshipping God—require the same lowering of self and raising of others in our scale of preferences for persons. On average throughout the world in 2005-10 (adjusted for differences in mortality), a couple which *never* worshipped had an average of 1.2 children; but the average couple which worshipped at least once a week had 2.4 *more*—an average of 3.6 children.[17]



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There are four main reasons, then, for "demographic winter," in order of importance: First, low rates of religious practice, which are associated with low birth rates (and high incidence of abortion); second, government benefits so high as to displace gifts within the family, particularly the gift of life—in effect substituting "benefits for babies"; third, legacies of totalitarianism; and finally, finally, heavy reliance on fiscal policies which penalize investment in people: so-called "human capital."

World Total Fertility Rates & Abortion

TFRs adjusted for mortality (= 2 x NRR)

Year;	(1) CN	(2) (1) ex abor tion	(3) IN	(4) (3) ex abor tion	(5) US	(6) (5) ex abor tion	(7) HU	(8) (7) ex abor tion	(9) 52 countries (~2/3 world) weighted by population	(10) (9) ex abor tion
2005-10 actual	1.53	2.10	2.34	2.41	2.01	2.66	1.30	2.05	1.88	2.34
2083 est.	n.a.	n.a.	n.a.	n.a.	1.64	2.26	n.a.	n.a.	n.a.	n.a.

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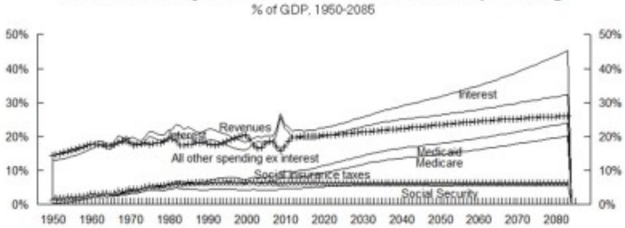
Fifty years ago, the world's three most populous countries were China, India, and the United States. That's still true today. But the practice of abortion in China but not as widely in India is causing a reversal of their first and second population ranks.

Adjusted for differences in mortality, in 2005-10 China's TFR was 1.53 after but 2.10 before abortions; India's 2.34 after and 2.41 before abortions, the USA's 2.01 after but 2.66 before abortions, and 4th-largest Indonesia's 2.04 after but 3.05 before abortions.[18] On the same basis Hungary's morality-adjusted TFR was 2.05—almost exactly the replacement rate—before but 1.30 after legal abortion. Based on all 53 countries for which data are available (comprising about two-thirds of world population), the World TFR was 1.89 after, but 2.38 before abortions. Thus legal abortion has been single-handedly responsible for "demographic winter" in nearly all individual countries, including the USA and Hungary and for the whole world.

Actual & Projected Federal Taxes and Spending

% of GDP, 1950-2085



A 125-Year Picture of the Federal Government's Share of the Economy, 1950-2075 (CBO 2002, updated)

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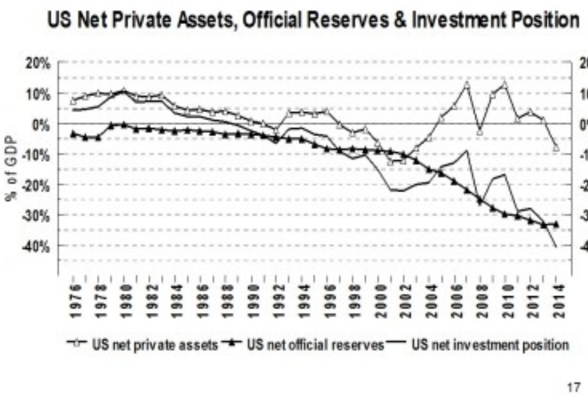
What does this mean for policy? Based on current projections, the U.S. federal budget would substantially increase federal social benefits as a share of GDP. Because of the strong inverse relation between per capita social benefits and the birth rate, I project that the U.S. birth rate will fall significantly farther under current law, from about 2.01 in 2005-10 (1.83 in the most recent year) to about 1.64 children per couple. These projections indicate that the budget is likely to shift U.S. society to conditions approximating the Social Security Trustees' "High-Cost Assumptions."

Turning now to political economy, I'd like to focus on the two most important modern examples of injustice in exchange, typified by significant unemployment or either inflation or deflation. Both were first correctly diagnosed by the French economist Jacques Rueff (1896-1978), whom I consider the greatest economist of the 20th century.



Our conference has used the word “money” as a metaphor for the economic aspect of life. But I’d like to use the term literally.

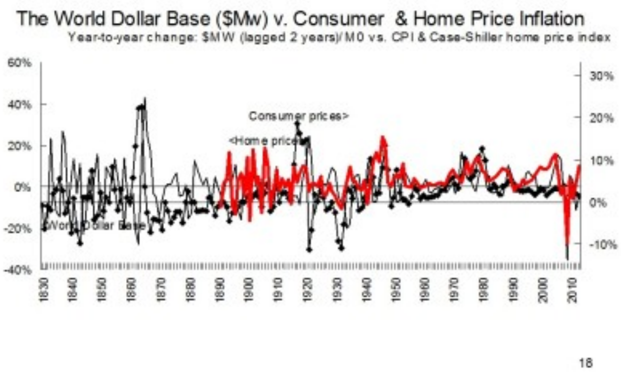
Most foreign experts seem to be clueless about Hungarian politics. But I found one sentence in a New York Times profile of Victor Orban particularly illuminating: “’He [Orban] traced his views to what he portrayed as the failures of Western governments to anticipate and deal adequately with the financial crisis that started in 2008 and the ensuing deep recession.”’

I found this illuminating because here I think I can shed some light. The global crisis was essentially monetary. Some American officials believe that the dollar’s role as chief official reserve currency has strengthened the United States. As Lewis E. Lehrman and I have shown, the reverse is true.[19]

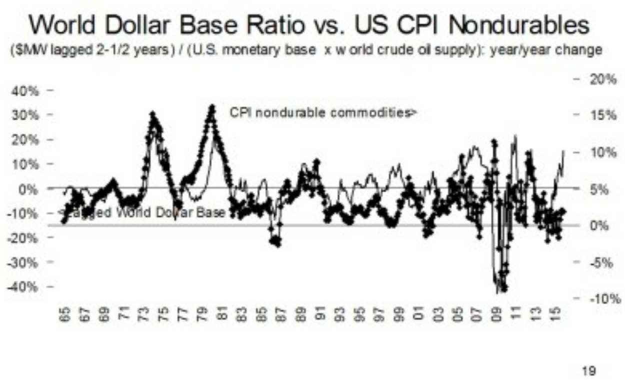
Keynes had argued in his 1913 book, *Indian Currency and Finance*, that whether a central bank holds its reserves in gold or in foreign exchange “is a matter of comparative indifference,” and that “in her Gold-Exchange Standard, . . . India, so far from being anomalous, is in the forefront of monetary progress” heading toward “the ideal currency of the future” (Keynes 1913: 30, 259, 36). Keynes thus foresaw and advocated the coming interwar official reserve currency roles of sterling and the dollar, which he and other British monetary experts convinced the European great powers to adopt at the Genoa Conference in 1922.

In 1932, Rueff summarized the basic fact contradicting Keynes’ theory and described its role in causing the 1931 financial crisis and Great Depression: When a monetary authority accepts dollar debt for its official reserves, instead of settling balance of payments deficits in gold, purchasing power “has simply been duplicated, and thus [e.g.] the American market is in a position to buy in Europe, and in the United States, at the same time,” which tends to cause inflation (Rueff 1964 [1932]: 52–53). Conversely, the liquidation of official dollar reserves causes deflation. This explains not only the timing and magnitude of the 1920s boom and 1930s bust, but also the demise of the similarly organized post-Second World War Bretton Woods gold-exchange standard, and the monetary expansion that caused a housing bubble and the oil price to spike to $150 a barrel in 2008, triggering the Great Recession of 2007-09.

The U.S. international investment position—American investments minus foreign liabilities—has declined almost exactly by the amount of U.S. public debt borrowed from foreign monetary authorities. The same would happen to any other country’s currency which aspired to displace the dollar as pre-eminent official reserve currency, as the dollar displaced the pound sterling.

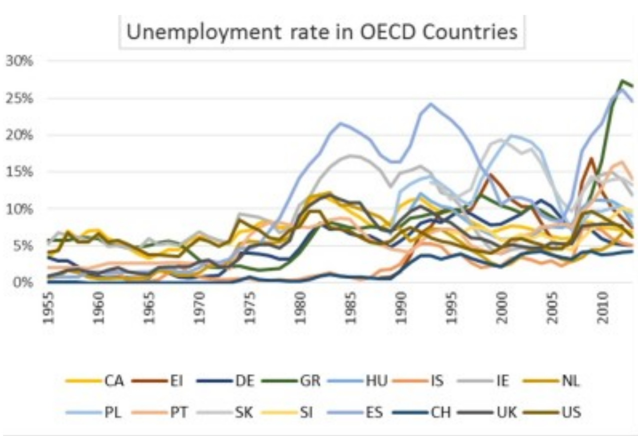


Moreover, the expansion and contraction of foreign official reserves caused the Great Recession of 2007-09 as well as the Great Depression of 1929-32.



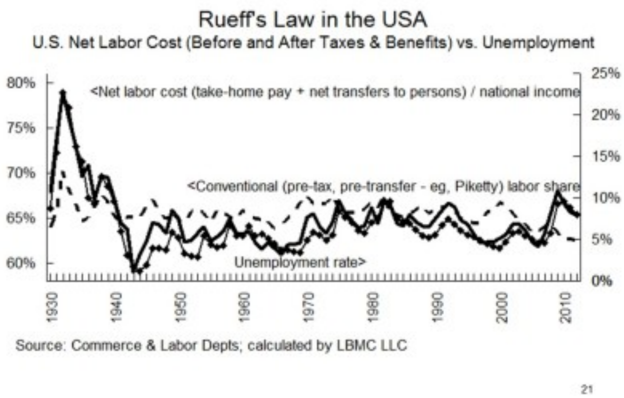
From 1988 until I retired last year, I was able to make a living as an economic and financial market forecaster, especially in predicting commodity-led inflations which it was possible to predict by applying Rueff's monetary theory, and by predicting their effects on the stock, bond and currency markets.

Therefore, all countries seeking to end the boom-bust cycle, including Hungary, should join in supporting a reform of the international monetary system, which would repay all outstanding dollar and other official reserve currencies and restore prompt settlement of payments in gold: a system that worked well for hundreds of years and can do so again.[20]



I have just explained that the origin of the Great Recession of 2007-2009 was the same as of the Great

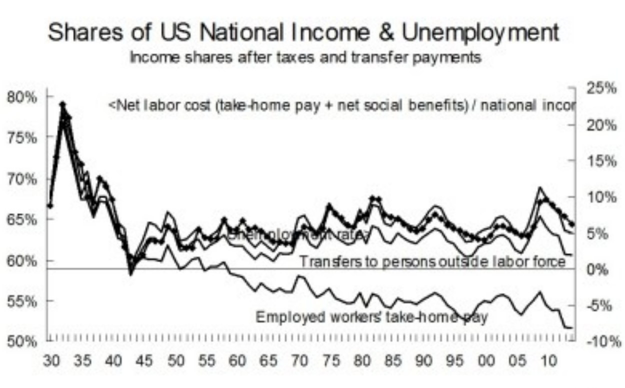
Depression of 1932, and why both were world-wide phenomena. But this does not explain why, during the Great Recession, the unemployment rate varied so enormously by country–peaking at about 4% in Switzerland, 10% in the USA, 11% in Hungary, and more than 25% in Spain and Greece.



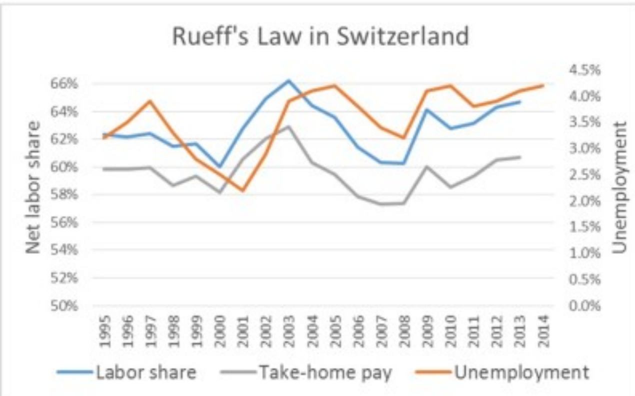
The unemployment rate is determined by what in the 1930s and 1940s was called "Rueff's Law." The French economist used it in 1925 to trace Great Britain's unprecedented post-World War I unemployment to the institution of an open-ended "dole," fixed in nominal terms (so many shillings a week), in the face of a postwar price deflation, caused by Britain's return to the pound's prewar gold value despite a wartime multiplication of the producer price level. Keynes cited this relationship in his *General Theory*[21]—which depends on Rueff's Law, plus the assumption that wage rates are fixed in nominal but not real terms. As Rueff noted. "The theory of employment which Keynes calls 'general' is valid only for very special cases, for economies which are entirely insensitive to movements of prices and interest rates," (Rueff 1948).[22]

More than 20 years ago, I showed that Rueff's Law still holds: after adding social benefits and subtracting taxes on workers, there is a near-perfect relationship between the net cost of labor and unemployment in the USA and Britain. That tight relationship has continued both during and since the Great Recession of 2007-09.

M. Piketty, Meet M. Rueff. This leads us to the thesis of the earnest French socialist Thomas Piketty. Like Adam Smith's *Wealth of Nations*, Picketty's best-seller *Capital in the Twenty-First Century* is notable chiefly for what it *omits from* rather than *adds to* economic theory. M. Piketty was catapulted into the planet's wealthiest "1 percent" by the return on what Nobel economics laureate Theodore W. Schultz called "human capital." Yet Piketty reverts to a horse-and-buggy late-19th-century theory of production that excludes so-called "human capital," defining "capital" instead as "total nonhuman assets."



Betraying no knowledge of “Rueff’s Law,” Picketty decries the decline in labor’s share of national income—measured “*before* taxes” and social benefits—and uses this decline to advocate steep redistribution from “capitalists.” (The broken line shows the pre-tax, pre-transfer labor share Piketty uses in his book.) As this still more detailed chart shows, workers’ take-home pay *has* been reduced—but by expanded shares paid as benefits to the unemployed and those outside the labor force, of exactly the sort Piketty advocates—not as increased net income to “capitalists.”



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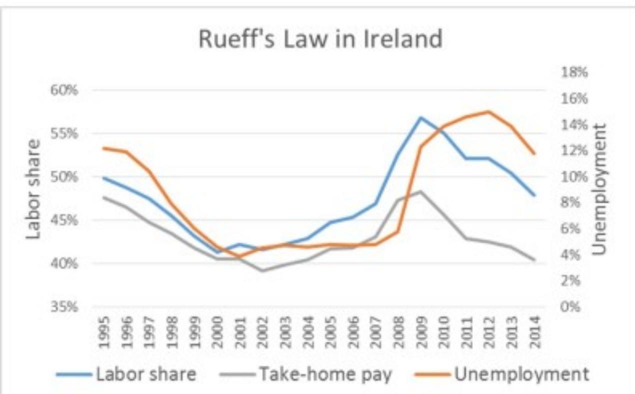

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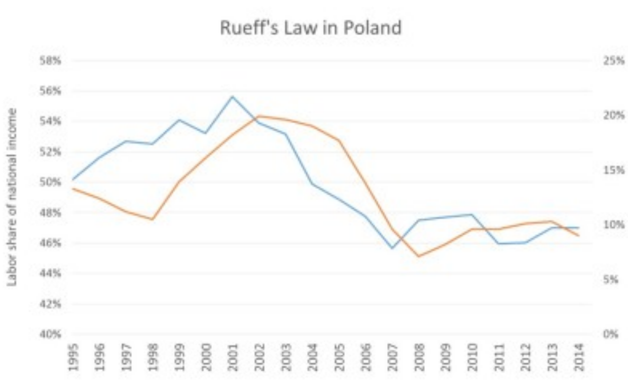

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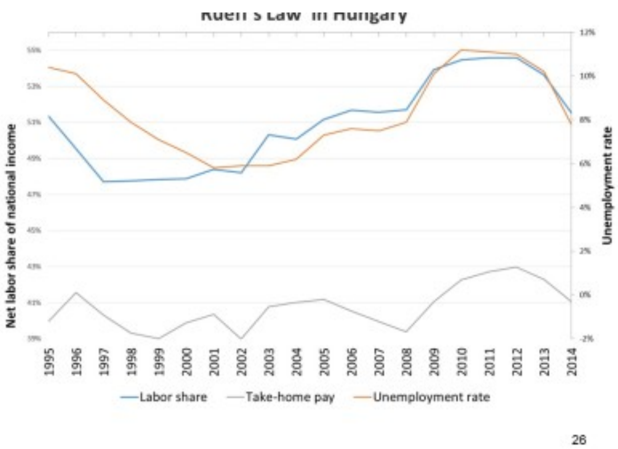
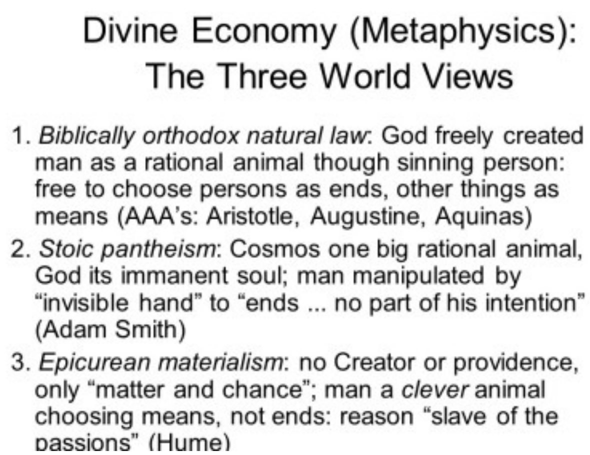
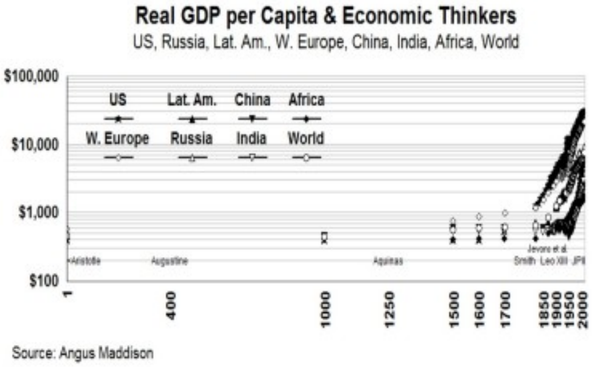


Though I have done far less work on Eastern Europe than the USA, and the available data go back only 15-20 rather than more than 85 years, Rueff's Law appears to hold as well for Hungary and Poland. Since, according to Rueff's Law, the impact of any policy on the unemployment rate is proportional to its effect on labor's net share of national income, the relationship implies how existing economic policy might be improved. For example, the difference between take-home pay (wages and salaries minus taxes on labor compensation) is cash social benefits (which I have assumed are essentially untaxed) recent reforms of social benefits have almost certainly reduced Hungary's unemployment rate. But some implications can also seem counter-intuitive. For example, shifting the income tax burden from workers to proprietors might seem to help workers, but it also increases the net labor share of national income, and thus the unemployment rate, which on balance reduces workers' share of potential national income.



The final chapter concerns "divine economy," which was Aristotle's name for metaphysics. Three alternate world views are presupposed by (Neo-) Scholastic, classical, and neoclassical economics: biblically orthodox natural law, the Stoic and Epicurean philosophies, respectively. Though differing ultimately about immaterial realities–the existence or nature of God or the soul–these three views lead to starkly different behavior among people and starkly different predictions by economists.[23]



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Scholastic economics and Catholic social thought. My eminent colleague George Weigel has argued that launching Catholic social doctrine was only one of several interconnected reforms by which Pope Leo XIII began the transition from Counter-Reformation Catholicism—which had followed the phases of Apostolic, Patristic, and Medieval Catholicism—to the fifth, current phase, which Weigel has described as "Evangelical Catholicism."[24]

In his magisterial yet concise survey of Catholic social doctrine, Russell Hittinger has noted that Catholic social thought rests on four basic principles: "dignity of the person, solidarity, subsidiarity, and common good." Moreover, these four principles were outlined in "the three great 'social' encyclicals – *Rerum novarum* (1891), *Quadragesimo anno* (1931), and *Centesimus annus* (1991)."[25]

To understand the relation between scholastic economics and Catholic social thought, it's helpful to distinguish the *history of economics*–that is, of the economic theory used by economic thinkers to describe any economic activity–from *economic history*: how the economic aspect of society develops: for example, the progressive transition of the United States (and in fact most countries) from agriculture to industry to services. Roughly speaking, scholastic economic theory is the analytical toolkit that popes since Leo XIII have used to discuss the new pastoral challenges of economic history as it unfolds.

Social Encyclical/ Document	Author	Year	Significant Themes
Rerum novarum	Leo XIII	1891	Challenges of industrialization; insists on natural rights of workers, vital but limited right of private property, ultimate futility of communism
Quadragesimo anno	Pius XI	1931	Challenges of Great Depression. Outlines basic principles of solidarity and subsidiarity.
Pentecost radio broadcast	Pius XII	1941	"Every man…has…the fundamental right to use the material goods of the earth, though…juridical forms regulate…[its] practical realization."
Mater et magistra	John XXIII	1961	Authentic community necessary to promote human dignity; state must sometimes intervene in health care, education and housing.
Populorum progressio	Paul VI	1967	"The social question has become worldwide." (Paul VI first modern pope to travel extensively; address 'all men of goodwill,' not just Catholics.)
Octogesima adveniens	Paul VI	1971	Expanding on *PP*, *OA* addresses problems of urbanization with poor living under substandard conditions.
Laborem exercens	John Paul II	1981	Dignity of workers; dignity and rights of human person are the fundamental principle in all socio-economic, technological and productive processes.
Sollicitudo rei socialis	John Paul II	1987	"The Church's social doctrine not a 'third way' between liberal capitalism' and Marxist' collectivism….rather, it constitutes a category of its own."
Centesimus annus	John Paul II	1991	After collapse of communism, *CA* combined domestic and international strands of social doctrine into unified framework.
Deus caritas est	Benedict XVI	2005	Concise description of Church's social doctrine, its relation to the natural law, and distinction from politics.
Caritas in veritate	Benedict XVI	2009	'Gratuitousness' of economic relations mirrors creation as God's gift to mankind.
Evangelii gaudium	Francis	2013	"I wish to encourage… a new chapter of evangelization marked by this [gospel] joy." "Without the preferential option for the poor, the proclamation of the Gospel…risks being misunderstood or submerged."

29

It may seem that encyclicals on economics are abstract, but in fact they are always tied to analysis of some concrete historical event. The first encyclical of the Church's modern social thought, in 1891, was called *Rerum Novarum* — literally, "of new things — in which Pope Leo XIII dealt with the new social and political challenges raised by industrialization.[26]

Forty years later, Pius XI's *Quadragesimo anno*[27] (1931) was the first social encyclical to refer to Catholic social thought as a unified doctrine, and the first to describe the basic principles of solidarity and subsidiarity.

Pius XII’s 1941 Pentecost radio broadcast[28] marking the 50th anniversary of *Rerum novarum* was technically not an encyclical. But John XXIII treated it as equivalent to one a decade later in *Mater et magistra*[29] (1961).

In the 1960s, after the decolonization of much of Africa, Asia and Central and South America following the Second World War, the horizons of the Church’s social thought widened to embrace the emerging so-called “Third World.” Moved by the poverty he witnessed on his travels, Pope Paul VI argued in *Populorum Progressio* (“The Development of Peoples”) that “the social question has become worldwide.”

Pope John Paul II elaborated and joined these two strains in his three major encyclicals on economic matters, *Laborem Exercens*, his encyclical on the dignity and vocation of work, and two others that began by looking back at an earlier papal encyclicals, *Sollicitudo Rei Socialis*[30] and *Centesimus Annus,* which as the title indicates was issued on the 100th anniversary of *Rerum Novarum*.[31] Its particular merit is to bring both strains of the Church’s social thought into a single unified framework.

Similarly, Benedict XVI’s *Caritas in Vertitate* (“Charity in Truth”) was originally intended for 2007, the fortieth anniversary of Paul VI’s 1967 encyclical *Populorum Progressio*, and was notable for emphasizing the “gratuitousness” — the giftedness, if you will– of Creation and even the economy. *Deus Caritas Est*, drafted under John Paul II and published by Benedict XVI, is valuable for its concise description of the relation among the natural law, Catholic social doctrine, the roles of the Church and secular politics.[32]

I would like to comment here on errors in terminology. I found a paper by László György and József Veress extremely helpful in understanding the recent challenges and basic strategy of Hungarian economic policy since 2010[33] What I think harmful is their adoption from the American economist Robert Reich of the description “supercapitalism.”

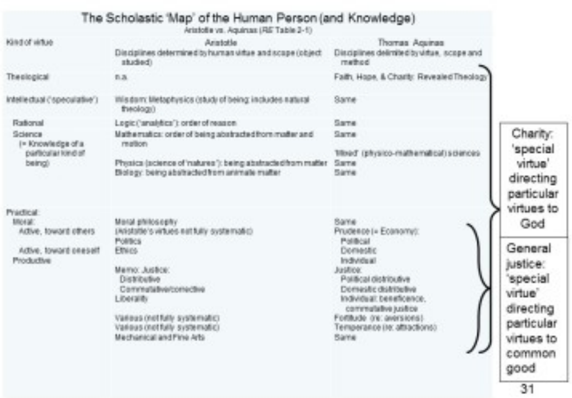
For reasons I explain in *Redeeming Economics*, he term “capitalism” has no analytical content whatsoever, apart from Adam Smith’s erroneous “labor theory of value.” Therefore, anyone who uses the term “capitalism,” whether to defend *or* attack it, condemns himself to an inconclusive pillow-fight in the dark. Pope John Paul II rightly discouraged use of the term in *Centesimus annus*, 42.[34] The only partial exception I would make is the metaphorical phrase “human capitalism,” to describe the central economic role played by human beings.

A Schematic Representation of the Basic Forms of Justice

Josef Pieper, *The Four Cardinal Virtues*, p. 113

I would be remiss if I did not mention my friend and colleague David Lutz, who offered me friendly challenges to extend my analysis.[35] “As a contribution to a revised theory of the business firm,” he wrote, “I propose that we look to the species of Aristotelian justice that Mueller does not mention [in the first edition]”–namely what Aristotle and Aquinas called “general justice.”[36] He goes on to note that the term "general justice" is now commonly called "social justice," though the latter term is "problematic."[37] Following Heinrich Pesch, he proposes to rename general or social justice as "contributive justice," [38] and borrows a chart from Josef Pieper's book, *The Cardinal Virtues*, to illustrate his conception of the relations among distributive justice, commutative justice and general justice.

Aquinas's key passage states that general justice is "general 'virtually,'" but not "essentially," as for example "'animal' is general in relation to man and horse." [39]



The Scholastic 'Map' of the Human Person (and Knowledge)
Aristotle vs. Aquinas (RE Table 2-1)

Kind of virtue	Aristotle	Thomas Aquinas
	Disciplines determined by human virtue and scope (object studied)	Disciplines delimited by virtue, scope and method
Theological	n.a.	Faith, Hope, & Charity: Revealed Theology
Intellectual ('speculative')	Wisdom: Metaphysics (study of being; includes natural theology)	Same
Rational	Logic ('analytics'): order of reason	Same
Science (= Knowledge of a particular kind of being)	Mathematics: order of being abstracted from matter and motion	Same
		'Mixed' (physico-mathematical) sciences
	Physics (science of 'natures'): being abstracted from matter	Same
	Biology: being abstracted from animate matter	Same
Practical:		
Moral:	Moral philosophy	Same
Active, toward others	(Aristotle's virtues not fully systematic)	Prudence (= Economy):
	Politics	Political
Active, toward oneself	Ethics	Domestic
Productive		Individual
	Memo: Justice:	Justice:
	Distributive	Political distributive
	Commutative/corrective	Domestic distributive
	Liberality	Individual: beneficence, commutative justice
	Various (not fully systematic)	Fortitude (re: aversions)
	Various (not fully systematic)	Temperance (re: attractions)
	Mechanical and Fine Arts	Same

Charity: 'special virtue' directing particular virtues to God

General justice: 'special virtue' directing particular virtues to common good

31

Table 2-1 in *Redeeming Economics* compares Aristotle's with Aquinas's "maps" of human knowledge and of human virtues, listing all the particular virtues. I would like to present that table here, but including "general justice" where it seems to belong (as it appears in the new Hungarian translation.)[40] As Aquinas says, "there must be one supreme virtue essentially distinct from every other virtue, which directs all the virtues to the common good; and this virtue is legal justice."[41] He notes that corresponding (and superior) to the "special virtue" of general justice, which orders other virtues to the common good, is the "special virtue" of charity, which orders all particular virtues to God.[42]

It is characteristic of Pesch and his followers to conflate social or general with distributive justice.[43] As David wrote, this understanding is "problematic," but he didn't explain exactly why.

Equating social justice with distributive justice is incorrect because distributive justice always refers to *common* goods. To mistake general or social justice as equivalent to distributive justice, one must therefore falsely presume that all goods are common goods. If we accept the term "social justice" as equivalent to general justice, it must refer to *all* goods–not just common goods, but also personal gifts, which, as I note in *Redeeming Economics*, Pesch's economic theory omitted.

Conclusion. I have attempted to cover much ground in 45 minutes. But I hope at least to have explained, first, how the original Scholastic Economics differed from both Adam Smith's later Classical economic theory and today's Neo-Classical Economics; second, how an updated version, "Neo-Scholastic Economics," is reshaping our understanding of secular economic theory and offering new policy solutions, for example, in explaining "demographic winter" and crises like the Great Depression and Great Recession; and finally, how Scholastic Economics provided the analytical "toolkit" which provides the outline for and is necessary to explain the much younger body of Catholic social doctrine.

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[1] These opening remarks are adapted from presentations at panels on *Redeeming Economics* at annual conferences of the History of Economics Society (HES) in 2011 and Association for Private Enterprise Education (APEE) in 2012, published in Biddle and Emmett eds. (2013).

[2] In the book I note that I use the term "redeem" in the sense of "fulfill (an earlier promise or pledge)." If, as I believe, the next phase in economics is Neoscholastic, it will have fulfilled its original promise.

[3] Deuteronomy 6:5 and Leviticus 19:18; cf. Matthew 22:37-39 and Mark 12:29-31.

[4] Augustine's theory of personal distribution: *On Christian Doctrine* I,28 (see also *On Free Will*, cited below); Aristotle's social distribution (distributive justice): *Ethics* V,3; Augustine's theory of utility (consumption): *City of God* XI,16; Aristotle's theory of production of people and property: *Politics* I,4; Aristotle's justice in exchange (equilibrium): Ethics V,5. In Aquinas, three of these four elements (the distribution function, the utility function, and the equilibrium conditions) are described (and the production function implied) in Thomas Aquinas, *Commentary on Aristotle's Nicomachean Ethics*, translated by C.I. Litzinger, O.P., Foreword by Ralph McInerny, Dumb Ox Books, Notre Dame, IN, 1993; personal distribution: Book V Lectures IV-IX, 293-318; social distribution: 294; the "equilibrium conditions": 294-296 and 297-299, the "utility function" and analysis of money, 312-315. The production function is described in his commentary on Aristotle's *Politics* I, 2: Aquinas, *Commentary on Aristotle's Politics,* tr. Richard J. Regan, Hackett Publishing, Indianapolis, 2007, 19-24. The same analysis is also scattered throughout his *Summa theologiae*, especially in his commentary on the seventh commandment.

[5] In the book I typically use the term "final distribution," to distinguish it from "distribution" as the term has been used since Adam Smith. The original scholastic theory of distribution comprises Augustine's theory of personal distribution–gifts and their opposite, crimes–and in every social community (like a family or political community), what Aristotle called "distributive justice." Smith conflated what is more properly called "compensation" or "justice in exchange" with distribution properly so called, by introducing the assumption that "every individual … intends only his own gain." (Smith 1966 [1776], *Wealth of Nations*, IV.ii.9, accessed on 19 September 2009 from http://www.econlib.org/library/Smith/smWN13.html#IV.2.9. I recount Smith's oversimplification of the scholastic economic theory he had been taught by his teacher Frances Hutcheson in Mueller 2010 chapter 3.

[6] This concise formulation seems to be that of Aquinas, paraphrasing Aristotle's *Physics*, ii, 5: Summa 1-II Q1. A2: http://www.newadvent.org/summa/2001.htm; cf. http://classics.mit.edu/Aristotle/physics.2.ii.html.

[7] Aristotle (1932 [335-322 B.C.]), p. 2, p. 4, pp. 102-103.

[8] Augustine also introduced the important distinction between "private" goods like bread, which inherently only one person at a time can consume, and "public" goods (like national defense, enforcement of justice, or even this panel) which, at least within certain limits, many people can simultaneously enjoy, because they are not "diminished by being shared" (i.e., scarce) Augustine (395-396), viii, 19, p. 146. Private goods are now sometimes called "rival" goods. The formulation "diminished by being shared" is from Augustine (396/397), I, 2.

[9] Augustine (395/396), p. 131.

[10] To be more precise, love with both benevolence and beneficence.

[11] Or rather, love only with benevolence but not beneficence.

[12] Aristotle 1954 [c. 350 BC], V, v; pp. 117-122.

[13] The simplified version merely lists "yes" or "no" to denote the presence or absence of each fundamental element of economics. The three schools of neoclassical economics originated with Jevons 1871, Menger 1976 [1871], and Walras 1954 [1874]).

I presented the (neo-)scholastic system and contrasted it with subsequent classical and neoclassical revisions in *Redeeming Economics* (Mueller 2010) as follows (pp. 375, 400, 416):

(1) $C_{Ki} + C_{Li} = YiD_{ii}/SD_{ij}$ [final distribution function],

where *C*Ki, and *C*Li represent the use ("consumption") by Person *i* of the services of his or her human capital, *L*i, and nonhuman capital, *K*i; *Y*i is total compensation (labor and property income) of Person *i*; Dii is the significance of Person *i* to himself, and S*D*ij is the significance of all persons to Person *i*.

For clarity and simplicity later on, we will define

(5) Yi = rKi+ wLi

meaning that *Y*i is the total net factor compensation (labor and property income) of Person *i*; and

(6) T_i = Yi – YiDii/dDij.

By substituting (5) and (6), (1) may therefore be restated as

(1a) CKi, + CLi = Yi – Ti.

This makes clear that the difference between Person *i*'s total consumption, *C*Ki + *C*Li, and total compensation, *Y*i, is equal to *T*i—(net) personal, domestic, and political "transfer payments" from Person *i* to other persons. Transfer payments comprise any income *not* received as compensation for contributing to current production. "Net" means that personal gifts made are offset by gifts received, while taxes are treated as transfers paid to the government and balanced against government transfers received.

For a purely selfish person, the distributive share *D*ii/S*D*ij is 100 percent; for a person who makes gifts to others, less than 100 percent; for a criminal, more than 100 percent; and for the victim of crime (or abortion), less than zero percent.

(2) Ui = f(CKi, CLi) [utility function],

where *U*i is the ranking by Person *i* ("utility") of *C*Ki, and *C*Li, the units consumed in use by Person *i* of the services of his or her nonhuman goods, *K*i, and human capital, *L*i, respectively. In reality, *K* and *L* are not two goods but two classes of goods consumed: (K1, K2, . . . ,Kn) and (L1, L2, . . . ,Ln). Scarcity implies that the value of each unit consumed declines as the number of units increases (dU/dC<0: "declining marginal utility") and that goods are "used up"—that is, rendered unusable—by consumption (for example, CKi = -DK*i*).

(3a) dKi = f1(Ki, Li) [production function for nonhuman capital];

(3b) dLi = f2(Ki, Li) [production function for human capital];

where D*K*i is the change in the stock (production) of nonhuman goods and d*L*i the change in the stock of "human capital," owned by Person *i*.

(4) PKdKi+PLdLi = rKi+wLi, where *P*K and *P*L are the unit prices of *K* and *L*, respectively, *w* labor compensation per unit of *L*, *r* property compensation per unit of *K*. (*P*L is a market price only in a slave-owning society, like ancient Athens or the antebellum American South.)

To summarize: The neoclassical economists restored the utility function (equation [2] above). They restored the two-factor production function (3a) and (3b). But until about 1960, they interpreted both human and nonhuman capital as being limited to tangible factors. The neoclassical economists followed Adam Smith in ignoring the distribution function in theory, but in practice they have assumed that everyone is purely selfish, thus adding the restrictive assumption Dii/SDij = 1. As with Adam Smith, this special assumption collapses equation (1) into:

(1b) CKi +CLi = Yi.

It also means of course that there are no personal gifts, crimes, common goods, or distributive justice:

(6a) Ti = 0.

[14] For example, I might note my own migration from the Chicago School as of Mueller 1996 to the Neo-Scholastic School in Mueller 2014 [2010].

[15] Aquinas, T. (1981 [1265-72]) II-II Q47 A11 contra and corpus, http://www.newadvent.org/summa/3047.htm#article11, and Q50 A3, http://www.newadvent.org/summa/3050.htm.

[16] The model was first published in John D. Mueller, "How Does Fiscal Policy Affect the American Worker?" *Notre Dame Journal of Law, Ethics and Public Policy* Vol. 20 No. 2 (Spring 2006), 563-619; available at http://www.eppc.org/publications/pubID.2671/pub_detail.asp

[17] Regular worship is not only positively related to fertility in a roughly linear fashion. It is also inversely related to the incidence of abortion, which (like crime in general) rises exponentially as the rate of worship declines. Data on abortion rates by country from "Abortion statistics and other data," by Wm. Robert Johnston. Last updated 19 September 2015, available at http://www.johnstonsarchive.net/policy/abortion/

[18][18] Fertility rates should be adjusted for differences in mortality rates. The Net Reproduction Rate (NRR) represents a hypothetical woman whose experience matches the average rates of fertility and death of all women in a given year. (The Total Fertility Rate measures fertility alone.) An NRR of 1.00 indicates that each woman bears exactly one surviving daughter. The Total Fertility Rates used in the model equal twice the NRR. For example, the TFR in Mali in 2006 was 7.42, but the NRR was 1.987, which corresponds to a TFR of 3.97 children per couple. In other words, in Mali the typical couple had about 3-1/2 children simply to compensate for the likelihood of premature death before reaching child-bearing age. United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects: The 2008 Revision, New York, 2009; http://data.un.org/Data.aspx?d=PopDiv&f=variableID%3A48.

[19] Mueller and Lehrman, 2014.

[20] A more complete presentation of the monetary ideas may be found at http://www.thegoldstandardnow.org/key-blogs/207-next-president-end-reserve-currency and http://www.eppc.org/programs/economics/publications/programID.41,pubID.4426/pub_detail.asp.

[21] "[M]oney-wages in Great Britain during…the decade 1924-1934 were stable within a range of 6 per cent, whereas real wages fluctuated by more than 20 per cent."

[22] Keynes himself explained why inflationary Keynesian policies would fail "[i]f, as in Australia, an attempt were made to fix real wages by legislation," because "then there would be a certain level of employment corresponding to that level of real wages….money-wages would rise proportionately to the increased money expenditure, so that there would be no increased expenditure in terms of wage-units and consequently no increase in employment."

[23] To stay within our time limits, I will not summarize these world views in my oral remarks. But briefly put: In (neo-) scholastic natural law, economics is a theory of rational providence, describing how we "rational," "matrimonial," and "political animals" choose both persons as "ends" (which we express by our personal and collective gifts) and the scarce means to be used (consumed) by or for those persons, which we make real through production and exchange.

By dropping both distribution (the choice of persons as ends) and consumption (the choice of other things as means), Smith expressed the Stoic pantheism that viewed the universe "to be itself a Divinity, an Animal" with God as its immanent soul, so that sentimental humans choose neither ends nor means rationally; instead, "every individual…intends only his own gain…and is led by an invisible hand to promote an end which was no part of his intention."

By restoring utility (the choice of means) but not distribution (the choice of persons as ends), neoclassical economics expressed the Epicurean materialism that claims humans somehow evolved as merely clever animals, highly adept at calculating means but having no choice other than self-gratification, since "reason is, and ought only to be, the slave of the passions," as Hume put it.

[24] George Weigel, *Evangelical Catholicism: Deep Reform in the 21st-Century Church,* Basic Books, 2013.

[25] Ibid, 2.

[26] While affirming the right of private property, and predicting the failure of communism, he insisted on the dignity and rights of workers and the need to protect the weakest, by government intervention if necessary.

[27]http://w2.vatican.va/content/pius-xi/en/encyclicals/documents/hf_p-xi_enc_19310515_quadragesimo-anno.html

[28] http://www.michaeljournal.org/realsc7.htm

[29]http://w2.vatican.va/content/john-xxiii/en/encyclicals/documents/hf_jxxiii_enc_15051961_mater.html

[30] SRS was published on the 20th anniversary of *Populorum Progressio*, and was intended to fill "the need for a fuller and more nuanced concept of development" than had previously been put forward. In it, he argued that the terms "poverty" and "development" mean poverty or development of the whole person, not just the economic or political system.

[31] In it, the pope looked back at what remains valid in the social thought begun in that encyclical, but also took note of the "new things" which had emerged, such as changes in the nature of Western economies and the collapse of communism.

[32] "25. Thus far, two essential facts have emerged from our reflections:

1. a) The Church's deepest nature is expressed in her three-fold responsibility: of proclaiming the word of God *(kerygma-martyria)*, celebrating the sacraments *(leitourgia)*, and exercising the ministry of charity *(diakonia)*. These duties presuppose each other and are inseparable. For the Church, charity is not a kind of welfare activity which could equally well be left to others, but is a part of her nature, an indispensable expression of her very being.
2. b) The Church is God's family in the world. In this family no one ought to go without the necessities of life. Yet at the same time *caritas- agape* extends beyond the frontiers of the Church. The parable of the Good Samaritan remains as a standard which imposes universal love towards the needy whom we encounter "by chance" (cf. Lk 10:31), whoever they may be. Without in any way detracting from this commandment of universal love, the Church also has a specific responsibility: within the ecclesial

family no member should suffer through being in need. The teaching of the Letter to the Galatians is emphatic: “So then, as we have opportunity, let us do good to all, and especially to those who are of the household of faith” (6:10).”

[33]György, L. and Veress, J. (2015).

[34] Op. cit. “42. Returning now to the initial question: can it perhaps be said that, after the failure of Communism, capitalism is the victorious social system, and that capitalism should be the goal of the countries now making efforts to rebuild their economy and society? Is this the model which ought to be proposed to the countries of the Third World which are searching for the path to true economic and civil progress?

“The answer is obviously complex. If by “capitalism” is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, even though it would perhaps be more appropriate to speak of a “business economy”, “market economy” or simply “free economy”. But if by “capitalism” is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality, and which sees it as a particular aspect of that freedom, the core of which is ethical and religious, then the reply is certainly negative.'”

[35] David Lutz’s paper seeks to contribute to a philosophical theory of business management within the tradition of natural law and virtues, mentioning Plato, Aristotle and Cicero as well as such medieval philosophers as Augustine of Hippo and Thomas Aquinas, but also modern philosophers and economists including (particularly) Heinrich Pesch (1854-1926), Josef Pieper (1904-1997) and Alasdair MacIntyre (b. 1929). I place in endnotes comments I did not have time to make in my oral remarks. Unfortunately, I did not have time to emphasize my agreement with his point, the fruit of many years in Africa, that “Efforts to alleviate Africa’s material poverty should focus not only on the distribution of existing wealth to Africans, but also on the production of new wealth by Africans.”

David Lutz gives a pretty thorough precis of my recounting of the history of economics, from its scholastic beginnings when Thomas Aquinas’s integrated elements from Aristotle and Augustine of Hippo, Adam Smith’s radical over-simplification, the reinvention and updating of Augustine’s theory of utility starting in the 1870s, and finally, my claim that we have already entered the next “neo-scholastic” phase.

David’s point of entry is working out a neo-scholastic theory of business management[, about which he correctly says I wrote relatively little, beyond reclaiming Aquinas’s threefold division of moral philosophy into personal, domestic and political prudence or “economy,” and noting that the modern business firm and non-profit organization are both offshoots of the ancient household: the modern household specializes in producing and maintaining people, while the modern business firm specializes in producing and maintaining productive property, and the modern non-profit specializes in distributing gifts beyond the household.

“Both distributive justice and commutative justice play important roles in Mueller’s theory. But the tradition of Aristotle and Aquinas understands that there is a third kind of justice. Aristotle makes a distinction between justice as a particular virtue, which includes distributive and commutative justice, and justice as a general virtue, which is concerned with obedience to just laws and promotes the good of the community. Aquinas follows Aristotle in understanding ‘general’ or ‘legal’ justice to be directed toward the common good.”

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distinction between justice as a particular virtue, which includes distributive and commutative justice, and justice as a general virtue, which is concerned with obedience to just laws and promotes the good of the community. Aquinas follows Aristotle in understanding 'general' or 'legal' justice to be directed toward the common good."

[37] "Although some authors prefer to call it 'social justice,' this name is problematic, since it has a wide range of meanings within contemporary discussions of justice and is often used to mean distributive justice."

[38] Lutz argues, "When economic production is understood not only in terms of 'combining the useful services of people and of property,' but also as meeting the demands of contributive justice, management can become an integral part of Mueller's theory of neo-Scholastic economics. The purpose of management is neither to maximize long-term shareholder value nor merely to benefit stakeholders, but to contribute to the common good, the good of a community."

[39] Aquinas, T. (1981 [1265-72]), S.T. II-II Q58 corpus, available at http://www.ccel.org/a/aquinas/summa/SS/SS058.html#SSQ58A6THEP1. Aquinas concludes the passage: "It follows therefore that the good of any virtue, whether it orders a man toward his very self, or orders him toward some other individual persons, is referable to the common good, to which justice is ordered. And according to this the acts of every virtue can belong to justice insofar as it orders a man toward the common good. It is in this sense that justice is called 'general virtue.' And since it belongs to law to order to the common good, as stated above, whence it is that such justice, said in a way to be 'general,' is called 'legal justice,' because through it a man harmonizes with the law ordering the acts of all the virtues to the common good." John Goyette, whom David Lutz also cites, paraphrases Aquinas (I think pretty accurately) as follows: "The virtue of legal justice aims at the good of the whole political community and thereby serves all those who participate in that whole. Because it orders or directs all the other moral virtues, legal justice is called 'general virtue' (virtus generalis), and the actions of all the other virtues are said to belong to justice, to become in some sense acts of justice. While the virtue of particular justice is limited or restricted to certain kinds of actions, 'general justice' pertains to the full range of human actions by ordering the actions of all the other virtues to the common good." Goyette (2013), p. 148.

[40] My omission of general justice from *Redeeming Economics* was probably related to my *deformation professionelle* of being an economic and financial market forecaster: As I suggest below, while particular virtues like justice in exchange and distributive justice can be unambiguously quantified, the "special virtues" of general justice and charity apparently cannot.

[41] S.T. II-II Q58 ad4, available at http://www.ccel.org/a/aquinas/summa/SS/SS058.html#SSQ58A6THEP1. This suggests that general or social justice may not be unambiguously quantifiable. Yet there may be great heuristic value in attempts to do so, for example Luigi Toma's effort to devise a "Catholic Social Thought Index (CSTI) in Toma 2014.

[42] III Q23 A4: http://www.newadvent.org/summa/3023.htm#article4. To place general justice and charity in proper perspective, it is helpful to quote the final two sentences in *The Four Cardinal Virtues* which immediately precede the chart that David Lutz uses to illustrate his argument about general justice: "For it is true, as Thomas says, that 'mercy without justice is the mother of dissolution'; but also that 'justice without mercy is cruelty.' Now it becomes possible to state the inner limits of justice: 'To be willing to watch over peace and harmony among men through the commandments of justice is not enough when charity has not taken firm root among them.'" Pieper 1965, 112-113.

[43] "The term *social justice* is today generally used as a synonym of what used to be called *distributive justice*."Burke (2010), p. 297, cited in Lutz 2014a.

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