Seven Pillars Institute
Moral Cents Vol. 7 Issue 2, Summer/Fall 2018

# A Review of and Recommendations Arising From Pope Francis's "Considerations for an Ethical Discernment Regarding Some Aspects of the Present Economic-Financial System"

**Brad Seferian**

**Abstract:** This paper first describes the Catholic Church's view of the responsibility of an economy to the common good based on Pope Francis's "Considerations for an Ethical Discernment Regarding Some Aspects of the Present Economic-Financial System." It discusses how Catholic teachings relate to Aquinas's understanding of economics. Finally, the paper uses a cost benefit methodology as a practical and ethical solution to economic issues presented by the Pontiff.

## The Catholic View of Economics and Finance

Pope Francis seeks to fill the moral void in economics and finance. The pontiff confronts modern shortcomings of the global financial and economic system, and provides insight on how to address these market failures. What's truly striking about this document is the use of logic, Christian teachings, and virtue ethics to navigate problems that are deeply rooted on a global scale. In a system where people look inward to solve problems, Pope Francis uses ethical reasoning to look at bigger picture issues. To understand the meaning of Pope Francis' call for action, and develop a framework for what an economic system should look like to the ethical actor, this paper does the following:

1. Introduce the Church's basic view of society and the responsibility of an economy to the common good

2. Discuss how Catholic teachings relate to Aquinas's understanding of economics

3. Use cost benefit analysis methodology as an practical and ethical solution to issues presented by His Holiness

The term "utility" is introduced almost universally in basic microeconomics classes. For the purposes of this article two concepts under utility theory require explanation. The first is the principle that each individual consumer is A) a rational consumer B) a self-interested utility maximizer. These criteria provide the basis for an economy that functions through individual interests powered by the individual need to maximize utility. An indifference curve graphs individual preferences by mapping desired quantity of different goods that correspond to a certain level of utility. Utility theory relies on the assumption that within an economic market, individuals seek to maximize their own happiness through consumption of market goods.

Pope Francis sees this vision of economic relations as fundamentally problematic. The underlying principle of capitalism is that private control of trade and industry can be used to create profit for the individual. However, Pope Francis finds the idea of looking at an economy solely through a monetary lens as too narrow. By limiting individuals to their market preferences (utility) and choices as a consumer of goods, we neglect to account for the human part of the "human relations" side of any economy. In his own words, "Every economic system is legitimate if it thrives not merely through the quantitative development of exchange but rather by its capacity to promote the development of the entire person and of every person" (10)

The development of the entire person is a concept unfamiliar to business students, as the curriculum of standard business schools demonstrate. The Catholic Church believes that a strong economy is only possible through authentic development of every person. This sort of development comes from love for community, the integral good, and truth.

The importance of the Church's theological interpretation cannot be disregarded. The ideas that resonate with millions of Christians worldwide must have gained merit through their practical and ethical value. Saint Thomas Aquinas, whose work has been studied for centuries, puts forward a set of ethics that underpins what the Pope prescribes for our modern financial issues. We can draw a parallel to Aquinas' theories and how they relate to the "*Oeconomicae et pucuniariae quaestiones*".

**Natural and Eternal Law**

- Natural law is the way humans participate in the Eternal law. There are universal goods, which humans are inclined to know instinctually.
- Humans exhibit natural propensity to pursue things such as life, truth, happiness, and friendship.
- Following Natural Law, these truths are ends that should be met by the means of our everyday actions.
- Eternal Law is the rational freedom given by God to act in accordance with what brings happiness.

The existence of Natural Law presupposes humans act rationally, as a means to reach a higher state of happiness (Floyd). The Pope uses a similar line of reasoning, within the context of defining an economy. The Pope believes the means and endowments that markets use are morally permissible, given they do not intrude onto the dignity of the person (Oeconomicae et Pecuniariae Quaestiones). Further, the benefit of an economy is not simply measured in terms of potential monetary gain. The true potential of an economy is to develop the totality of the person, and to contribute to the common good. Market transactions, trade, and commerce, all of which are meant to better all parties involved, are not sufficient to validate a global financial and economic system. A more personal version of the exchange of goods is necessary. This entails an understanding of a few principles.

1. Profit is not legitimate if it does not achieve the objective of the integral promotion of the human person
2. Exchange of goods is not simply a trade of material things. Trading must develop the entire person (enhances relationships and unity of society)
3. The distribution and multiplication of goods must be a priority. The ability to create good to help others is necessary.

We turn to Aquinas to address these aspects of the functioning of an economy. What the Pope calls the "Common Good", Aquinas views on an individual level through the Natural Law. According to Aquinas, we want to act in such a way that enhances our ability to achieve certain truths such as life, truth, friendship, and happiness (Hagan). In a capitalist society, the purchase of a book on finance from a local bookstore can bring happiness and knowledge to that buyer. This consumer is rationally deciding to buy and read a book to bring her knowledge and happiness. However, this person is also creating a connection with the cashier at the bookstore through the small-talk while purchasing the book. The consumer is contributing to the local economy, and to the author of the book. In these ways the consumer is not only creating happiness for herself, but also developing the entire human, creating unity in the community, multiplying good to help others, and doing so under the "Eternal Law'. The purchase of a book is only a small example of how the Pope and Aquinas aim to create an economy that sees past material profits.

It's evident the current system does not seek to do what the Pope prescribes. We must not be naïve to think markets should be left unregulated and can thrive on the good will of people. In terms of the regulating powers that govern our economy, the Pope challenges political and economic-financial powers to do the following: put the common good before all else (*Oeconomicae et Pecuniariae Quaestiones*).

This challenge has a few implications. First, regulations should be updated in response to changes in the market. With improving efficiency in technology, global trade, and stock market activity, it is more important to be in front of changes. Second, opponents will claim an "overreach" of government cuts away at free market ideology. While paramount to the efficiency of any free market, private competition is susceptible to corruption and illicit behavior. Further, we have reached a point where conventional economics is challenged by changes in global markets and the increasing complexity of international trade.

**Asymmetric Information**

A common problem in the United States is asymmetric information in specialized services. When a party in an economic transaction has more information about the service or good being provided, there is said to be asymmetric information. This asymmetry can lead to moral hazard, which presents itself when a party in a transaction has the opportunity to act in such a way that would be contrary to the fairness of a deal.

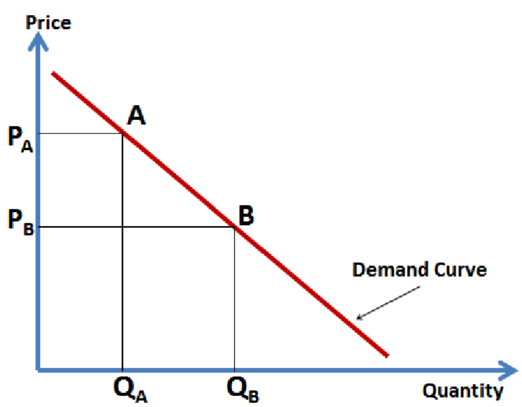
For example, financial advisors are trusted with the expertise and know-how to advise on financial matters and can make a meaningful impact in their communities. However, the existence of asymmetric information of financial "know-how" creates an opportunity for unethical behavior. Financial advisors can use the information they have to mislead investors or act in a way that results in conflicts of interest. While in a position to build trust and relationships with those in their community seeking help, often the temptation to increase monetary gain outweighs the desire to do good.

Regulation can help create an economy where its actors are incentivized to act ethically. The right regulation must be decided on in an ethical way. The following methods can help us determine the social impact of any policy decision.

**External Benefits: Private vs. Social**

Cost-benefit analysis is concerned with the social impact of decisions. It is logical and comprehensive to look at externalities when making a policy. Social evaluations demand extensive inclusion of all who will be affected by a policy. In economic terms, a benefits calculation in CBA is essentially the area under the demand curve. This is because of a few assumptions. The first is that a quantity demanded equals a consumer's willingness to pay (WTP). WTP fits in nicely with welfare economics because benefits are measured by WTP of not only the consumer, but sellers, taxpayers, family members, and all others affected. It is a calculation of the benefits of the well-being of the entire economy, not just the parties involved (Brent).

Where WTP evaluations differ from private markets is in its inclusiveness of consumer surplus.




A simple demand curve can help illustrate this point. We can conclude that WTP is equal to the revenue of a transaction plus the consumer surplus. The area under the demand curve corresponding with point B on the graph is essentially the area of the square: PB, B, QB, 0 and the triangle: PB, B, 10 (Assume where demand curve intersects y-axis = 10). The area of the square is the sum of price and quantity: revenue. In a private market, firms base decisions off of profit: the difference between revenue and costs. In the social market, consumer surplus, which accounts for the accrued benefit of society at a given market equilibrium, is included under the demand curve as the triangle $P_B$, B, 10. By measuring benefits as the area under the demand curve at a given point (point B for example) rather than multiplying price and quantity (the square $P_B$, B, $Q_B$, 0), the effects on consumers are accounted for. Hence, using benefits as measured by WTP is an ethical method to using revenue and consumer surplus as a measure of social satisfaction.

Shortcomings of using WTP as a benefits determination are strictly business related. Accounting for consumer surplus introduces the possibility of making business decisions that sacrifice profit in the name of ethics. While this is what Cost-Benefit Analysis and the Pope calls for, the difficulty lies in the application of businesses making decisions that are not as efficient as possible. In a capitalist system, making profit for one's business is beneficial because profit is money that can be reinvested. However, sometimes business decisions can benefit one group of people unfairly or harm a group of people. WTP criteria allows for greater humanity in the process of business making decisions.

**Distributional Weights**

In the determination of how to regulate, govern, and invest in programs that could create a stronger groundwork for an ethical economy, one must consider the equity effects of any program. Equity and efficiency considerations differ in that efficiency is concerned with the size of the "economic pie", but not how the slices are divided up in society. If we are to create change in which our financial-economic institutions value the development of the entire person, equity considerations must play a bigger role.

Though controversial, it is good practice to use distributional weights in CBA decision making criterion. Distributional weights are percentages applied to the costs and benefits side of a calculation relative to the income level of those affected by a policy (Brent). These weights are determined by inversely incorporating aspects such as income and health levels to the individuals affected. In essence, the assignment of a high or low distributional weight establishes how much each group values its dollar. In traditional CBA, benefits could outweigh costs, deeming a project worthwhile, but the project could disproportionately harm low income groups in favor of the rich. By applying higher weights to low income earners, and low weights to high income earners, we can account for the relative value of the dollar to each income group.

Without Distributional Weights: Benefits – Costs > 0 deems a project worthwhile. This assumes weights $x_1 = x_2$. This does not hold because we know that in social terms, a dollar is more valuable to someone in poverty than to a high income earner. Therefore: $x_1B - x_2C > 0$ is the criteria that must be used to deem a policy worthwhile.

Cost-benefit analysis methodology is on par with what The Pope and Natural Law theory teach about economic and financial theory. While Pope Francis calls for the development and recognition of human interaction in an economy, He too understands the necessity of policy that has society's interests in mind. The individual desire to achieve higher truths in life is not mutually exclusive to the development and bettering of those you do business with. Though global commerce and technological advances have suppressed the importance of a caring, welfare style of economics, the Pope's conviction to fix our economic-financial institutions must be taken into account.

-x-

**Works Cited**

1. BEA. "Foreign Direct Investment (FDI) from NAFTA Countries in the United States from 1994 to 2016 (in Billion U.S. Dollars, on a Historical-Cost Basis)." *Statista*, July 20 2017

2. Brent, Robert J. *Advanced Introduction to Cost-Benefit Analysis.* Edward Elgar Publishing, 2017.

3. Bronfenbrenner, K. (1997). We'll Close! Plant Closings, Plant Closing Threats, union organization and NAFTA, *Multinational Monitor,* 18(3), 8-14

4. Compa, L. (1994). American trade unions and NAFTA [Electronic version]. In H. Totsuka, M. Ehrke, Y. Kamii, & H. Demes (Eds.), International Trade Unionism at the Current Stage of Economic Globalization and Regionalization: Proceedings of the international conference held in Saitama University, Japan (pp. 97-117). Tokyo: Friedrich-Ebert-Stiung.

5. “Capital Mobility: The Good, the Bad, and the Ugly.” *The Economist*, 1 Oct. 2016, www.economist.com/special-report/2016/10/01/the-good-the-bad-and-the-ugly.

6. Floyd, Shawn. “Thomas Aquinas: Moral Philosophy”, *The Internet Encyclopedia of Philosophy*, ISSN 2161-0002, http://www.iep.utm.edu/, 6, 27, 2018.

7. Hagan, Michael J. “St. Thomas Aquinas: Economics of the Just Economy.” *Austrian Student Scholars Conference*, 12 Dec. 2012.

8. The Sovereign Pontiff Francis. “*Oeconomicae Et Pecuniariae Quaestiones*”. Considerations for an Ethical Discernment Regarding Some Aspects of the Present Economics-Financial System’ of Congregation for the Doctrine of the Faith and the Dicastery for Promoting Integral Human Development, *The Holy See*, 6 Jan, 2018.