The Economics of Pope Francis

An Introduction

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Responding to Pope Francis's Call for Dialogue

Pope Francis has invited those concerned about the economy, the environment, and the destiny of the world—everyone—to join a dialogue.[1] And there is a clear need for dialogue between Francis and economists because the pope and many in the economics profession do not see eye to eye at a fundamental level on many issues.[2] The purpose of this symposium is to advance the dialogue at a

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1. Francis uses the term *dialogue* twenty-five times in *Laudato si'*, and he adds a special plea to economists for an "economic ecology": "We urgently need a humanism capable of bringing together the different fields of knowledge, including economics, in the service of a more integral and integrating vision" (2015b, 141). All citations to papal encyclicals and other papal documents in this symposium's essays refer to paragraph rather than page numbers.

2. One might complain that there is no possibility that economists and Pope Francis will ever see eye to eye because they have different goals in analyzing the economy. Maciej Zieba argues that some popes (e.g., Leo XIII, Pius XI, and John Paul II) follow the tradition of Thomas Aquinas and Antoninus of Florence in taking a "holistic" approach that offers a realistic depiction of the social situation and tries to diagnose causes and suggest ways to eliminate problems (an approach that economists tend to take), whereas others (e.g., Paul VI) follow the tradition of John Chrysostom and Bernard of Clairvaux in taking a "pastoral" approach that focuses on exposing situations that need redress, identifying injustices, and not pointing the way toward realistic remedies (2014, 196). Francis seems to take this second approach. Anthony Waterman writes: "Francis, like all popes before him . . . judges the validity of behavioral assumptions by their conformity with Christian anthropology as viewed from the Vatican. Therefore, it seems to me impossible that . . . Francis could ever 'see eye to eye at a fundamental level' with economists. The modern social scientific method of explaining social phenomena by means of abstract models based on methodological individualism is utterly alien and unwelcome to traditional papal thinking. For the latter is based on . . . [an] organicist conception of society; its purpose is always normative (to identify the need for distributive

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critical juncture when Francis's encyclical *Laudato si'* (2015b, hereafter cited as *LS*), other writings, and public comments have called into question the benefits of free markets and advocated measures to protect the environment from excessive consumption and harmful production practices.

The symposium begins with my own examination of what Pope Francis—"who credits his father, an overworked accountant, with imparting to him 'a great allergy to economic things'" (Schneider 2015)—says about the economy, especially about the poor and the rich. Then I juxtapose his first principles with those used by economists and attempt to put his ideas into the terms economists use. I close by broadly exploring the strengths and weaknesses of capitalism as seen by economists and by Pope Francis—points that each can reflect upon as the dialogue continues.

In the next essay in this symposium, "Pope Francis, His Predecessors, and the Market," Andrew M. Yuengert outlines the evolution of Catholic social teaching, demonstrating that Pope Francis's statements—including his conviction that markets are instruments of an inequality that "kills" and his rejection of the "magical conception" of the power of markets to solve social problems easily—fit into a long tradition within the Catholic Church. He shows that over the past half-century Popes Paul VI, John Paul II, and Benedict XVI credited markets with the potential to serve as an outlet for human creativity and promote the efficient provision of goods but that they always warned that markets could not be left to function without the constraints of a healthy culture and governments able to place markets at the service of the common good. "Where his predecessors warned of the danger that markets might overrun culture and political control, Francis asserts that they have in fact done so." He concludes that Francis's alarm about the dismal social facts of today's world—especially in developing countries—makes "the previous popes' analysis somewhat irrelevant, in the way that advice for keeping a car on the road does not help someone whose car is in a ditch." However, although Yuengert agrees that in some important ways Francis's evaluation is not too extreme, he fears that Francis's most extreme statements will close off real dialogue with conscientious businesspeople and sincere advocates of free markets—thus simply moving the car from one ditch to another.

In "Understanding Pope Francis: Argentina, Economic Failure, and the *Teología del Pueblo*," Samuel Gregg emphasizes that Pope Francis is much more hostile to the market and capitalism than his predecessors and explains that to understand Francis one must consider his background in Argentina, a country in which a relatively free economy has over the past seventy years decayed into corporatism and cronyism due to populist political forces embodied in Peronism. Thus, when Francis

justice); and its philosophical basis in the Neo-Thomism of Leo XIII excludes any possibility of a Hayekian 'spontaneous order' which at least since Adam Smith has been fundamental to 'the economic way of thinking.' [Francis] and 'economists' must always be at cross-purposes in this matter. They cannot 'disagree' because there is no common ground. To attempt a comparison of their incommensurable views is like comparing chalk with cheese" (personal correspondence to the author, July 25, 2016). Despite these points, I believe that dialogue can be fruitful.

envisions capitalism, it is the dysfunctional capitalism of Argentina that most informs his thinking—a model of capitalism that friends of free markets rightly reject as capitalism at its worst, which isn't reflective of how capitalism generally works in the places our readers will know best, especially the United States. Gregg also explains how Francis's affection for the *teología del pueblo,* "theology of the people," which attributes much power to lowly people in forming the church, in shaping its ideas, and even in directing its doctrine, has influenced much of his outlook. This theology is not Marxist, but it unfortunately has particular problems of its own. In the first place, although the church is Christ and His people and has always had a special care for those on society's margins, it also holds that its sacred doctrines come from divine revelation and two millennia of careful, well-informed discernment of that revelation's meaning. Popular movements have had a history—from biblical times to the present—of pulling away from these truths. (One example would be the church's clear teaching on sexuality and birth control in encyclicals such as *Humanae vitae* [Paul VI 1968] from which so many in the restive flock have wandered.) Second, many of the ideas that emerge from the peripheries of society are, like ideas that emerge elsewhere, often unaware of facts, illogical, and sometimes simply wrong. The fact that an idea emerges on the periphery does not mean it is without flaws. Third, the *teología del pueblo* has been influenced by Peronist ideas and priorities. That means it is influenced by populism, and populist movements have never been especially good at reducing material poverty.

In the third essay in this symposium, A. M. C. Waterman turns to Pope Francis and the environment in "Pope Francis on the Environmental Crisis." He begins by explaining the key arguments of Francis's encyclical *Laudato si'*—its enumeration of environmental problems that have escalated to the level of a crisis that is a "matter of life and death"; its rebuttal of the hollow charge that the "dominion" granted to humankind in Genesis has encouraged the unbridled exploitation of nature; its explanation that sin is the true cause of the crisis; its call for a global political response; and its conclusion that it is we human beings who need a deep conversion, a new lifestyle "free of the obsession with consumption" so that "at the end, we will find ourselves face to face with the infinite beauty of God" (*LS,* 222, 243). Next, Waterman examines the intellectual context of the encyclical—the science, papal social doctrine, and nonofficial influences from Aristotle to Romano Guardini—before providing his own learned analysis of the document. Despite harsh criticisms from some economists that *Laudato si'* is "economically flawed," Waterman concludes that "[o]n careful examination . . . some of the pope's strictures turn out to contain valid criticisms" of the "'deified market'" (quoting *LS,* 56), although they are sometimes "undermined or weakened by hyperbolic language." He closes with worries that Francis wants to rely too much on virtue for solving these problems and has ignored traditional church concerns that original sin has corrupted the state, too, thus "turning a blind eye to 'the proper economic function' of the market" (quoting *LS,* 171) and its potential to mitigate the problems it has helped unleash. Original sin makes it necessary to supplement virtue with self-interest, but Francis ignores this key insight as well as the relevance of the market economy as a potent instrument for recruiting self-interest to the common good.

Philip Booth continues this theme in "Property Rights and Conservation: The Missing Theme of *Laudato si'*" and points out that economists and other scholars have much to teach about how to protect the environment, citing research that should ease the worries about property rights that Pope Francis seems to express in the encyclical. The church has in the past stressed the social functions of private property, and much recent economic work suggests that this social usefulness applies also to the conservation of the natural environment. Booth discusses how Nobel Prize winner Elinor Ostrom stresses some important ways in which property rights can promote conservation, and these forms of community-controlled property seem especially well aligned with church teaching. In *Laudato si'*, says Booth, the church has "missed an opportunity to enable its faithful to contribute in a positive way to a debate with long-term consequences for the environment and for social policy."

Lawrence J. McQuillan and Hayeon Carol Park write their contribution, "Pope Francis, Capitalism and Private Charitable Giving," with a passionate directness akin to that of Pope Francis. They embrace his emphasis on everyone's moral responsibility to help those who are less fortunate but question his tactics. They call Francis's attention to the clear historical fact that capitalism has a unique, unrivaled history of lifting the poorest of the poor out of their desperate, absolute poverty. The pope is simply too pessimistic about the facts on the ground, and his embrace of forced redistribution through the state forgets how wealth is created—by giving people incentives to be productive, not by robbing Peter to pay Paul. Forced redistribution ultimately isn't real charity; it instead crowds out the true charity to which all are called and serves primarily to make people more accepting of the use of force to achieve ends they consider worthy. McQuillan and Park question Francis's claims that "'unbridled capitalism . . . has taught the logic of profit at any cost, of giving in order to receive, of exploitation without looking at the person' (qtd. in Wooden 2013)" because they believe this vision of capitalism is a caricature—the reality is that businesspeople are real people and have learned that the ethic of "profit at any cost" is generally bad for business. They go a further step and empirically document the strong positive relationship between charitable activities and both economic freedom and secure property rights across countries, drawing on a wide range of studies that support the conclusion that free markets bring forth greater charity. Economic freedom has not turned people into monsters; it has enabled them to be generous in new, powerful ways.

These summaries give a hint of the need for dialogue between the thousands of economists in the world and Pope Francis. There is much room for healthy discussion—for learning in both directions—but there is also a gulf, a veritable chasm, to be bridged.

Pope Francis's View of the Economic World

> [G]ive me neither poverty nor riches;
> provide me only with the food I need;
> Lest, being full, I deny you,
> saying, "Who is the LORD?"
> Or, being in want, I steal,
> and profane the name of my God.
> —Proverbs 30:8–9

As Pope Francis sees it, the purpose of the economy, like the purpose of everything else in the world, is to lead all people to God. In this section, I focus on three major pillars of his view: the idea that poverty is bad for the poor not simply for material reasons but also because it marginalizes them; the warning made emphatically by Jesus against the seduction of riches, against worshipping mammon, and against denying the Lord; and the idea that business is a noble profession that needs to be charitable, to create work, and to be generous with employees rather than merely to focus on profits.[3] Francis's encyclicals and press interviews are laden with these ideas, but even more so are the homilies that he gives at daily mass in his role as a "parish priest," upon which I also draw.[4]

The Poor and Marginalization

Francis's concern for the poor is obvious. He chose his papal name after St. Francis of Assisi, whom he sees as "the example par excellence of care for the vulnerable" (*LS*, 10). Even in his "environmental" encyclical, *Laudato si'*, his focus is as much on the poor as on the environment: "Today . . . we have to realize that a true ecological approach *always* becomes a social approach; it must integrate questions of justice in debates on the environment, so as to hear *both the cry of the earth and the cry of the poor*" (49, emphasis in the original). He decries the fact that "we are all too slow in developing economic institutions and social initiatives which can give the poor regular access to basic resources" (109) and affirms that, especially in the poorest countries, "the priorities must be to eliminate extreme poverty" (172). But his is principally a "summons to solidarity and a preferential option for the poorest of our brothers and sisters . . . [that] demands before all else an appreciation of the immense dignity of the poor" (158). He closes *Laudato si'* with a prayer that implores,

3. My coverage of Francis's ideas on the environment is minimal here because Waterman and Booth thoroughly explore these ideas elsewhere in this symposium.

4. In fact, looking at homilies may give a better sense of what Francis thinks. These pastoral homilies are almost certainly composed by Francis himself, whereas the encyclicals are drafted by committees of expert advisers, with the pope authorizing the end product—though often adding his own flavor in some passages.

"O God of the poor, help us to rescue the abandoned and forgotten of this earth, so precious in your eyes. . . . Touch the hearts of those who look only for gain at the expense of the poor and the earth. Teach us to discover the worth of each thing" (246).

Helping "the poor financially must always be a provisional solution in the face of pressing needs. The broader objective should always be to allow them a dignified life through work" (*LS,* 128). And caring for the poor isn't simply a matter of alleviating material want, it is also a matter of care and closeness: *Closeness* is a "beautiful word, for each of us. . . . Do I know how to draw near?" Francis asks elsewhere. "Do I have the strength, do I have the courage to touch those who are marginalized? . . . Do I have the courage to draw near or do I always keep my distance? Do I have the courage to close the distance, as Jesus did? . . . I think that it may be . . . very difficult to do good without getting our hands dirty. . . . Jesus got dirty" with His "closeness" (2015c).

The Rich and Excessive Consumption

For all Francis's tender attention to the poor, it's easy to overlook his attention to the rich. And here his message is that wealth and abundant consumer goods and services are *dangerous*—mainly because they separate us from God, from our brothers and sisters, and from our true nature. "There are three things . . . that separate us from Jesus: wealth, vanity and pride. . . . Possessions are so dangerous: they lead you immediately to vanity, and you believe you are important," but "when you believe you are important, your head swells and you become lost" (Francis 2015e). The solution is the "path of divesting"—literally taking off our garments, giving away our cloaks. By becoming poor, we may become rich: this happens "each time I strip myself of something, but not only of the excess, to give to a poor person, to a poor community, to so many poor people who lack everything," because "the poor enrich me" insomuch as "it is Jesus who acts in him" (Francis 2015f).

This theme bears repetition here because Francis himself often repeats it. "[T]hose who cling to riches are not concerned with either the past or the future. . . . Wealth is an idol . . . [that] needs nothing. . . . What do these riches and concerns do to us? They merely cut us out of time." Those attached to wealth therefore "cut off their relationship with the future," with God (Francis 2013e). "Each and every one of us needs to examine our conscience and find out what riches keep us from approaching Jesus on the road of life. They are the riches that come from our culture. The first is well-being or comfort or luxury. The culture of well-being that . . . makes us lazy and selfish" (Francis 2013a). We think comfort is enough. Our concern for material well-being leads us to make bad choices. Francis refers to a possible dialogue between spouses. "No, no, no more than one child, no? Because then we can't go on vacation, we can't go here, we can't buy a house. . . . We are in love with temporal things, while what Jesus offers is infinite. We like the temporary because we are afraid of God's time, the end of time" (2013a).

The riches of the market seduce us into settling for too little—for vacations rather than for children, for an earthly paradise walled away from humanity instead of for God. "There is a mystery in the possession of wealth. Riches have the capacity to seduce . . . to make us believe we are in an earthly paradise. I recall that in the 1970s I saw for the first time a closed community, of people who were wealthy; it was closed to protect against thieves, to be secure." The desire of these people was to be enclosed in that sort of "earthly paradise." When this happens, we close ourselves off "to protect possessions." We lose "the horizon," and "living without a horizon is sad" (Francis 2015a). We need to put on the brakes: "we need to grow in the conviction that a decrease in the pace of production and consumption can at times give rise to another form of progress and development" (*LS*, 191).

Putting one of the Gospel parables into modern terms, Francis asks how the rich man didn't notice the poor beggar Lazarus suffering at his door step. "When the rich man left the house, perhaps the car he left in had darkly tinted windows so he couldn't see out." But "surely . . . the eyes of his soul were tinted dark so he couldn't see." And thus the rich man "saw only his life and didn't realize what was happening" to Lazarus. Francis notes that three men are named in this parable—Lazarus, Abraham, and Moses—but the rich man "had no name, because the worldly lose their name," which is merely a feature "of the well-off crowd who need nothing" more and therefore who lose out on an eternity with God (2015d). Beware, says Francis, your riches may cause you to lose everything.

In *Laudato si'*, Francis argues that this excessive, self-destructive consumption on the part of the rich is partly the fault of markets. "[T]he market tends to promote extreme consumerism in an effort to sell its products, [and] people can easily get caught up in a whirlwind of needless buying and spending. Compulsive consumerism . . . . This paradigm leads people to believe that they are free as long as they have the supposed freedom to consume" (*LS*, 203). The market caters to people's emptiness: "When people become self-centered and self-enclosed, their greed increases. The emptier a person's heart is, the more he or she needs things to buy, own and consume. It becomes almost impossible to accept the limits imposed by reality. In this horizon, a genuine sense of the common good also disappears. . . . Obsession with a consumerist lifestyle . . . can only lead to . . . mutual destruction" (*LS*, 204). So many of the rich "have not the faintest idea of what to do with their possessions, vainly showing off their supposed superiority and leaving behind them so much waste" (*LS*, 90). So, as we must do with other addictions, we need to acknowledge the problem, reject the lures of the market, and kick the habit: "Many people know that our current progress and the mere amassing of things and pleasures are not enough to give meaning and joy to the human heart, yet they feel unable to give up what the market sets before them" (*LS*, 209). "Happiness means knowing how to limit some needs which only diminish us" (223). But this is hard for individuals because a "constant flood of new consumer goods can baffle the heart and prevent us from cherishing each thing and each moment" (222). "It is not easy to promote this kind of healthy humility or happy sobriety when we consider ourselves autonomous, when we exclude God from our lives or replace Him with our own ego, and think that our subjective feeling can define what is right and what is wrong" (224). The solution is to turn to the Christian Church and to God: "Christian spirituality proposes a growth marked by moderation and the capacity to be happy with little. It is a return to that simplicity which allows us to stop and appreciate the small things" (*LS,* 222). "Such sobriety, when lived freely and consciously, is liberating" (223).

As Andrew Yuengert emphasizes in his essay, this conviction that many are now consuming too much is not novel to Pope Francis. In the encyclical *Sollicitudo rei socialis,* St. John Paul II referred to this excess as "super-development, which consists in an excessive availability of every kind of material good for the benefits of certain social groups" and which

> easily makes people slaves of "possession" and of immediate gratification, with no other horizon than the multiplication or continual replacement of the things already owned with others still better. This is the so-called civilization of "consumption" or "consumerism," which involves so much "throwing-away" and "waste." All of us experience firsthand the sad effects of this blind submission to pure consumerism: in the first place a crass materialism, and at the same time a radical dissatisfaction, because one quickly learns—unless one is shielded from the flood of publicity and the ceaseless and tempting offers of products—that the more one possesses the more one wants, while deeper aspirations remain unsatisfied and perhaps even stifled. (1987, 28)

Business and Employees

Some observers have detected in Pope Francis a deep hostility to business, citing, for example, a statement in which he uses Basil of Caesarea's words to describe "the unfettered pursuit of money" as the "dung of the devil" ("Pope Francis: Speech" 2015); a homily that "money is the enemy of harmony; money is selfish" (Francis 2016); and a warning that "[w]ar . . . is an act of faith in money" (Francis 2013g). However, he clearly distinguishes business from money.

Pope Francis instead affirms that "business is a noble vocation, directed to producing wealth and improving our world. It can be a fruitful source of prosperity for the areas in which it operates, especially if it sees the creation of jobs as an essential part of its service to the common good" (*LS,* 129).[5] But hiring workers must be about more

5. Every month the pope announces a set of prayer intentions. It is interesting to note that, despite the elevated importance of businesspeople in the affairs of the world, Francis has yet to offer an intention for them. Prayer intentions have included those for "[s]mall [f]armers, that small farmers may receive a just reward for their precious labor" (United States Conference of Catholic Bishops 2016); for scientific researchers; for people involved in sports (in both 2014 and 2016); journalists, the media, artists, and workers; and the unemployed. Some may doubt the sincerity of this characterization of business as noble and point to contrary statements, such as Francis's homily warning that "the Church must 'let herself be startled by the newness of God' . . . . Otherwise she risks becoming barren, afflicted by . . . the desire to . . . become an 'entrepreneur'" (2014).

than profit; it cannot lead to abuse of workers, which Francis refers to hyperbolically as "slave labor," as he did when he mourned the deaths of more than seven hundred workers when a factory building collapsed in Bangladesh. This "slave labour exploits the most beautiful gift which God gave man: the ability to create, to work, to discover our dignity. How many of our brothers and sisters in the world are in this situation at the hands of these economic, social and political attitudes!" (Francis 2013d).

Though Francis sees business as noble, he stridently condemns "the principle of profit maximization" because it "reflects a misunderstanding of the very concept of the economy" (*LS,* 195). He warns that "[t]he economy accepts every advance in technology with a view to profit, without concern for its potentially negative impact on human beings" (109), and he chastises those "obsessed with profits" (190). "We need to reject a magical conception of the market, which would suggest that problems can be solved simply by an increase in the profits of companies or individuals" (190). When he meets with business groups, he calls on them to make the jobs of their employees—and the lives of these workers' families—secure and stable rather than to focus solely on the bottom line. He exhorts them to relieve "mothers and fathers of families [of] the worry of not being able to give a future, or even a present, to their children" and to act "in such a way that one task creates another, one responsibility creates other responsibilities, hope generates other hopes" ("Pope Francis to Confindustria" 2016).

How Pope Francis and Economists Disagree

It is clear that Pope Francis and many in the economics profession do not see eye to eye at a fundamental level.[6] This is immediately obvious if one examines the core microeconomic principles on which most of modern economics rests. Standard intermediate microeconomics textbooks explicitly state what most economists assume is true about individuals' preferences in most of their teaching and research:

> The theory of consumer behavior begins with three basic assumptions about people's preferences for one market basket versus another. We believe that these assumptions hold for most people in most situations. . . . [1] Preferences are assumed to be complete. In other words, consumers can compare and rank all possible baskets. . . . [2] Preferences are transitive. Transitivity means that if a consumer prefers basket A to basket B and basket B to basket C, then the consumer also prefers A to C. . . . [3] More is better

6. The reader will note that most people accept economists' key assumption that Pope Francis rejects, so economists are part of a much larger group that does not see eye to eye with the pontiff.

> than less. . . . [C]onsumers always prefer more of any good to less . . . [and] are never satisfied or satiated; more is always better, even if just a little better. (Pindyck and Rubinfeld 2005, 66)[7]

The third assumption is also known as "nonsatiation."[8]

After describing preferences, the standard intermediate microeconomics textbook turns to the consumer's budget constraint and the maximization problem that the consumer solves, showing that budget constraints and a set of indifference curves generate individual consumers' demand curves and ultimately the market demand curve. These demand curves reflect the marginal benefit consumers receive from the various goods they may buy, while supply curves reflect the marginal costs to profit-maximizing firms of producing goods.[9] When self-interested consumers and producers come together in markets, the equilibrium quantity—at which supply and demand are equal—is also the efficient quantity—at which the upward-sloping marginal cost curve equals the downward-sloping marginal benefit curve. Thus, the market does exactly what so many want it to do. The amount the market actually produces *equals* the efficient quantity—the quantity that maximizes the total value of all the resources used in the economy—unless one of the assumptions we have just made is invalid.

Unless one of the assumptions is invalid? As shown earlier, Pope Francis's view of the world is that one of these foundational assumptions is assuredly invalid. This simply isn't how God made people. Christianity holds that God made man in His own image. In many cases, this relationship can make man capable of the rationality that goes into the first two assumptions about consumer choice—that preferences are complete and transitive—but the third assumption is fundamentally flawed, says Francis. More material possessions and greater consumption aren't always or even generally better. A consumer who never feels satisfied with his material life—who always wants more—is not on the path to God. Christian teaching has always been

7. It's not just textbooks that buy this assumption. In a recent survey, only 2 percent of professional economists disagreed with the statement that "[e]conomic growth in developed countries like the U.S. leads to greater levels of well-being" (Whaples 2009, 341).

8. Pindyck and Rubinfeld follow this explanation by saying that "[t]his assumption is made for pedagogic reasons; namely, it simplifies the graphical analysis. Of course, some goods, such as air pollution, may be undesirable, and consumers will always prefer less. We ignore these 'bads' in the context of our immediate discussion because most consumers would not choose to purchase them" (2005, 66). In terms of my discussion, this is not much of a caveat. It divides the world into "goods" (of which more is always better) and "bads," without a hint that having more of something you like can also be bad for you or, in other words, that the nonsatiation assumption may not be correct or benign.

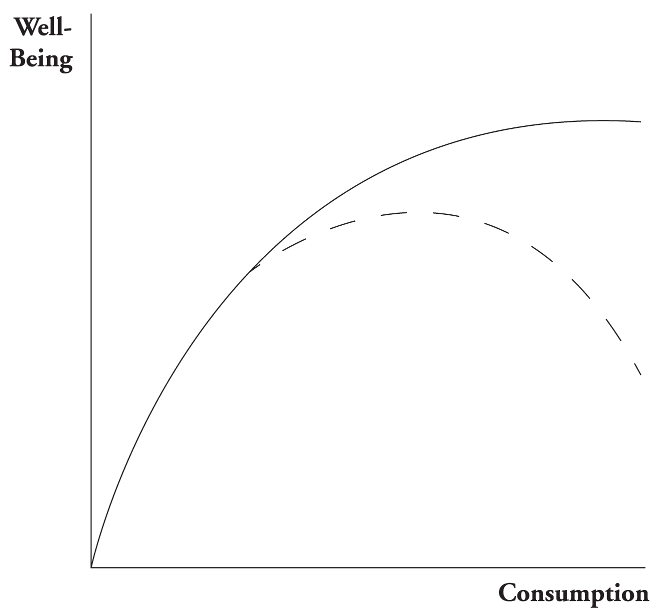
9. One can also question the assumption that firms attempt to maximize profits. As noted earlier, Francis condemns "the principle of profit maximization." I would wager that if pushed most economists would back off the firms-maximize-profits assumption before the consumer nonsatiation assumption. In fact, the principal-agent problem explains why it is so hard for firms to maximize profits, even if their owners desire it. But some businesspeople explicitly state that their goal is to maximize profits. A fitting example is candy-magnate Forrest Mars, who when he became CEO is reported to have told executives, "I'm a religious man," and then sank to his knees to recite the following litany: "I pray for Milky Way. I pray for Snickers. . . . That's what the consumer buys . . . that's what creates profit. And profit is our single objective" (qtd. in Brenner 2000, 177).

that God made people to have an infinite desire for Him, *not* to have an insatiable desire for the things of this world.

The avowedly utilitarian approach at the core of economics is certainly useful in some contexts but is no firm foundation for making choices in Francis's view. "Since the world has been given to us, we can no longer view reality in a purely utilitarian way, in which efficiency and productivity are entirely geared to our individual benefit" (*LS,* 159). Relentless utility maximization and this entire way of approaching the world, as Francis sees it, are flawed: "Rather than a problem to be solved, the world is a joyful mystery to be contemplated with gladness and praise" (*LS,* 12). In response to the claim that economics "often teaches [its] students to demoralize choices through an emphasis on consumer sovereignty and the subjectivity of value" (Shields and Dunn 2016, 144), Francis counters that "[p]urchasing is always a moral—and not simply [an] economic—act" (*LS,* 206). "Isolated individuals can lose their ability and freedom to escape the utilitarian mindset, and end up prey to an unethical consumerism" (*LS,* 219), so we need to turn to faith to help us "devise models of development which are based not simply on utility and profit" (Francis 2013c, 55).

The typical economists' view of the utility function is graphically shown in figure 1. As the level of income or consumption rises, the consumer's utility or well-being always rises—although inevitably the additions to well-being get smaller as one consumes more, which is one facet of the law of diminishing returns. But

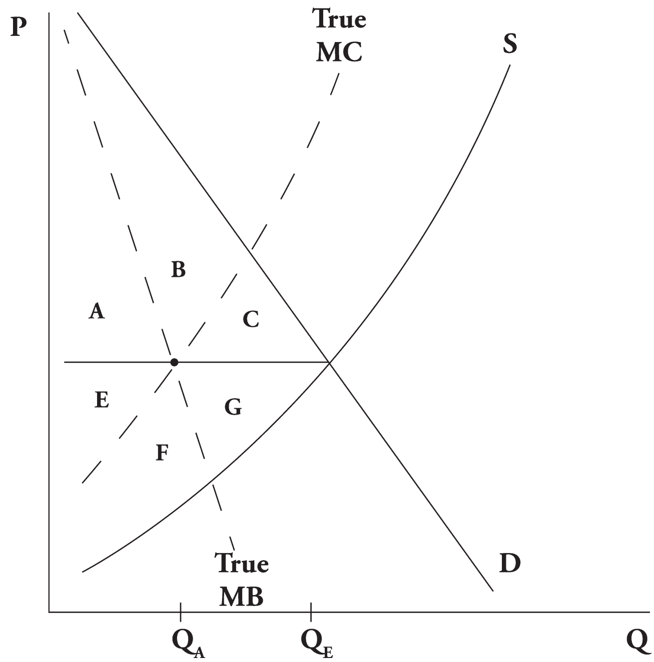
Figure 1
Two Views of Consumption and Well-Being



Pope Francis's critique of market outcomes is much deeper than the law of diminishing returns. He argues that the well-being of the rich *falls* as they consume more and more, as shown along the dashed curve. From this perspective, the utility of the rich rises when they divest themselves of possessions. This is the advice that Jesus gives and that Francis often repeats.

Economists argue that because demand reflects marginal benefits and supply reflects marginal costs, a competitive market will maximize the total gains to society. This outcome is shown in figure 2, a staple of introductory economics textbooks, which shows that the sum of the gains to consumers (consumer surplus, area ABC) and producers (producer surplus, area EFG) is maximized at the competitive market's equilibrium, Q_E. Any other level of production creates a deadweight loss—a loss of surplus, a loss of the gains from trade between buyers and sellers. Economists acknowledge that this fortuitous outcome will be blocked if there are third-party costs or benefits (externalities) that are not captured in the supply or demand curves, and they advocate solutions to this problem such as enforcement of property rights and pollution taxes. But Pope Francis says this view is much too simple. He not only sees ubiquitous hidden costs—especially costs that suppliers impose on others—but also questions the true benefits of much consumption. If so, the true marginal benefits

Figure 2
Two Views of the Optimal Amount of Production



(MB) of consumption—especially high levels of consumption—are low or nonexistent, and the true marginal costs (MC) are higher than those in the supply curve. In this case, the market-output level is excessive—greatly excessive. Thus, the level of output produced in markets, Q_E, isn't the optimal amount. In this view, the true optimal amount—perhaps we should call it the adequate amount, Q_A—is much less.

Because almost all of the public-policy advice that economists offer starts from ideas similar to the outline presented here, much of that advice will be at odds with Francis's point of view. But a tree must be judged by its fruit. Despite beginning from different premises, there may be room for agreement if the market—we buyers and sellers coming together and trading—bears good fruit. What are the fruits of the market? Here, too, there is much room for debate.

The Strengths and Weaknesses of Capitalism

No system of human interaction can be perfect, especially if we live in a fallen world. But how well does flawed capitalism[10] stack up against other flawed systems, such as socialism?[11]

A textbook definition says that capitalism is "a socioeconomic system in which resources (land, labor, and capital) are owned, operated, and traded for the purpose of generating profits by private individuals acting either singly or jointly. Investment, production, pricing, and the distribution of resources, goods, and services are determined by the decentralized choices of individuals in a market economy. In a capitalist system the private rights and property relations of individuals are protected by the rule of law" (Hackett 2011, 35). This system can be contrasted with the centrally planned allocation of scarce resources and government ownership or control of various combinations of land, labor, and capital under socialism or communism. This definition of capitalism isn't perfect—many economists will question, for example, the assertion that profits are the sole purpose in capitalism because the motives of actors within the system are much broader (on both the supply side and the demand side), and one should probably add a mention of freedom of entry into markets (hence, exiling extreme crony capitalism from the land of true capitalism). An alternative definition says that capitalism is a "system based on consumer sovereignty, animated by the responses of owners of resources to prices, and by entrepreneurs to prospects of profit and loss. That is, the pursuit of profits is a consequence of the primacy of serving

10. Some defenders of capitalism are wary of using the very term *capitalism* because of its Marxist pedigree and negative connotations in some circles. But the Latin root *cap* means "head" (as in head of cattle), so it strikes me that the term is quite apt if capitalism is largely about us using our heads.

11. To most Americans, even posing this question might be considered odd or a complete waste of time, but not for the students in the sustainability program in which I teach. Accordingly, we open the semester with Jason Brennan's *Why Not Capitalism?* (2014), which is an answer to George Cohen's *Why Not Socialism?* (2009), and then consider the strengths and weaknesses of capitalism as outlined later in this introduction.

consumer wants, with profits demonstrating that more value is being created than is being used up in resources" (Munger n.d.). I'm not sure which definition Pope Francis has in mind when he critiques market capitalism, but using either definition we can outline the strengths and weaknesses that friends and foes of capitalism offer.

Here's the vision of capitalism at its best, according to its champions—informed by the research and reasoning of many economists.

1. Most fundamentally, capitalism and markets help solve three big problems: *(a)* the knowledge problem (no one in isolation knows the costs and benefits of the many resources they possess or the best way to fulfill their own needs and wants, but information about all of this is pooled and communicated to everyone when prices emerge from trades); *(b)* the incentive problem (scarce resources are often wasted or used inefficiently if no one owns them or they are owned collectively, but owners have a strong personal incentive to use resources efficiently and add value to them); and *(c)* the learning problem (by providing feedback, especially in the form of profits and losses, everyone learns how to better allocate resources).

2. Because capitalism solves these problems so well, it accelerates technological improvements, eliminates absolute poverty, and generates rising standards of living, life expectancy, education, leisure, and more. The rich have gotten richer *and* the poor have also gotten much richer because of capitalism.[12]

3. Capitalism increases freedom because it achieves its ends without coercion. It is less violent than other economic systems. It promotes cooperation and harmony of interests—not only between buyers and sellers but also within firms.

4. Capitalism democratically diffuses power rather than concentrating it in the hands of central authorities. Although it sometimes seems that big businesses are "all powerful," in fact most of the power is in the hands of consumers—the people rule—because businesses can't force consumers to buy and so must compete for their business. Therefore, almost all of the gains from innovations ultimately go to consumers, not to businesses.[13] Capitalism handles fraud and deception well because people have the option to stop buying from those who defraud them. It *doesn't* tend toward monopoly—unless the state blocks entry into markets—and workers don't get exploited because they are mobile or have multiple options or both.

5. Capitalism incentivizes people to think in the long term—assets are worth less now if their future value is ignored, so owners of resources naturally pay close attention to conserving them. In addition, capitalism has brought higher levels of wealth, which allows people to be more patient. The starving man cannot wait; the well-fed one can.

12. See, for example, the historical statistics in van Zanden et al. 2014.

13. In fact, William Nordhaus estimates that from 1948 to 2001 only about 2.2 percent of the returns from technological gains were captured by producers—the other 97.8 went to consumers (2004, 22).

6. Capitalism gives people the incentive to be more virtuous and to serve each other. There is a payoff to acting kind, caring, decent, and prudent—and practicing these virtues in the market can actually help turn us into better persons.

7. Capitalism enables greater philanthropy and charity. It makes us richer so we can and do give away more to those in need.[14]

8. Capitalism unleashes creativity—it is the essence of creativity. We celebrate creativity in the arts, literature, science, and other fields, but capitalism means creativity, too. Joseph Schumpeter ([1911] 1983) likened successful entrepreneurs to Enrico Caruso, the great opera singer. Think about the creativity of Steve Jobs in the capitalist United States versus his father's life in socialist/totalitarian Syria. Problem solving, creativity, philanthropy, and service to others add meaning to people's lives.

9. As capitalist markets set an example of how people can work together to solve problems, everyone is encouraged to act in a more trustworthy manner, thus improving social ties and harmony.

10. Capitalism makes people wealthy enough to demand improvements in environmental quality and to create technologies to solve these problems—in the most significant ways (for example, the air we breathe), the environment is *cleaner* in the richest countries.[15]

11. Capitalism leaves room for people to behave socialistically (for example, families, communes, and convents), but socialism doesn't return the favor.[16]

Here are the downsides of capitalism emphasized by skeptics who agree that business can be noble.[17]

1. Capitalism incentivizes people not only to reduce *private* costs but also to ignore *social* costs and to push those costs onto others—it doesn't solve very well problems of externalities (such as pollution) or common-pool resources (such as overfishing) or the underprovision of public goods.[18]

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14. See McQuillan and Park's essay in this symposium.

15. See Yandle, Vijayaraghavan, and Bhattarai 2002.

16. As John Paul II put it, the right "to take initiatives in economic matters" is a human right. Does not depriving people of this right (and of other rights, such as the right to religious freedom and freedom to organize unions) "impoverish the human person as much as, if not more than, the deprivation of material goods?" (1987, 15).

17. I have omitted sweeping condemnations by critics, such as Marxists, who deliberately ignore capitalism's strengths.

18. Pope Francis puts this point (and some of those that follow) this way: "The principle of the maximization of profits, frequently isolated from other considerations, reflects a misunderstanding of the very concept of the economy. As long as production is increased, little concern is given to whether it is at the cost of future resources or the health of the environment; as long as the clearing of a forest increases production, no one calculates the losses entailed in the desertification of the land, the harm done to biodiversity or the increased pollution. In a word, businesses profit by calculating and paying only a fraction of the costs involved. Yet only when 'the economic and social costs of using up shared environmental resources are recognized with transparency and fully borne by those who incur them, not by other peoples or future generations,' can those actions be considered ethical" (*LS*, 195, quoting Benedict XVI 2009, 50).

2. Because capitalist economies produce so much, external damages often rise as output rises (for example, more automobiles mean more pollution). Because of capitalist economies' unslakable thirst, common-pool resources are drained more quickly (for example, better fishing boats and relentless competition mean there are dwindling stocks of fish in the oceans).

3. Capitalism is producing more than the earth can sustain. We're using up resources and leaving too few for the future. As Francis puts it, "We all know that it is not possible to sustain the present level of consumption in developed countries and wealthier sectors of society, where the habit of wasting and discarding has reached unprecedented levels" (*LS,* 27).

4. Even if excess production didn't damage the earth, capitalism has gotten so productive that many people simply have too much for their own good. The problem of obesity is an example, but the problem is much deeper. Almost everybody is getting spoiled now. Gluttony abounds.

5. Capitalism can generate high levels of economic inequality. Even if the poor get richer along with the rich, wealth and income gaps are much, much wider than they would be under other arrangements, and the rich flaunt their wealth, marginalizing those at the bottom. The rich "are far removed from the poor, with little direct contact with their problems" (*LS,* 49).

6. Capitalism encourages and feeds on envy—one of the (deadly) cardinal sins. Advertisements celebrate consumers for outdoing the Joneses and play on anxieties about keeping up with them—setting up zero-sum status competition. They make envy the norm.[19]

7. Capitalism can lure people into focusing on crass material things and "frenetic activity" rather than on more important things, especially spiritual matters and personal relationships. For example, in a study of people in forty-two countries, the Pew Research Center finds a *strong negative* correlation between income per capita and the importance of religion to people (Theodorou 2015). The lesser material light distracts us from the true light: "[H]ow can we listen to [words of love] amid constant noise, interminable, and nerve-wracking distractions?" (*LS,* 225).

8. Capitalism often panders to our worst nature. Advertisements focus on whatever is cool and whatever sells (especially sex), a focus that permeates and degrades society. It enables people to buy bad things for bad reasons.

9. Capitalism overemphasizes the individual to the detriment of the collective. It erodes social capital and communal bonds. Markets increase anonymous interaction, and people become part of a commodity chain instead of building purposeful relationships with their neighbors. (Note that this point directly contradicts point 9 on the previous list.) Its "emphasis on success and self-reliance . . . does not appear

19. Francis warns that when "media . . . become omnipresent, their influence can stop people from learning how to live wisely, to think deeply and to love generously" (*LS,* 47).

to favour an investment in efforts to help the slow, the weak or the less talented to find opportunities in life" (*LS*, 196).

10. Capitalism and markets tend to put a price tag on everything. When someone asks, "How much is Warren Buffett worth?" they think about his net worth and put a dollar sign in front. When they ask how much a minimum-wage worker is worth, the dollar sign is followed by a lot fewer zeros—as if that person is actually worth less. Putting a price tag on everything means that nothing is sacred. But there are many things that should never be bought and sold.

11. Workers are often exploited by capitalism. They don't get their fair share. Employers begin to view them as mere objects, dismissing them when they are no longer needed, paying them the lowest wages possible, and subjecting them to harsh and unsafe working conditions.

12. Capitalism is often perverted by cronyism and rent seeking (capturing the state to do one's bidding).

13. Capitalism is plagued by booms and busts. It's unstable.

I'm sure that others would prune some items from my two lists or add some to them or do both. And friends of markets will quickly add rebuttals to this second list. For example, they might say that the booms and busts of capitalism would be much milder if ill-advised government policies didn't destabilize markets so much; that although it might appear that workers are being "exploited," competition among employers means that they have to pay employees roughly the value of their productivity, which keeps rising over time as working conditions improve (Powell 2014); that we're not actually running out of resources—the scarcity of resources is best measured by their real prices, which are not generally headed up (Jacks 2013);[20] that proven global reserves of key natural resources such as petroleum, natural gas, and coal are rising, not falling (Covert, Greenstone, and Knittel 2016); and that it appears that in most places around the world consumption is not unsustainably high because physical capital, human capital, and technology add to productive capacity faster than natural-resource use subtracts from it (Arrow et al. 2004).

But, of course, foes of capitalism will do the same for the list of its strengths.

Conclusion

Pope Francis has a much lower opinion of capitalism and market economies than most economists. He especially emphasizes the problems on the list of capitalism's weaknesses—many of which he has seen firsthand. But most economists would argue that he has some blind spots that lead him to miss (or simply ignore) many things mentioned on the list of strengths—and this is a loss. Perhaps, the most baffling of these blind spots is his contention that levels of poverty—absolute poverty—are not

20. David Jacks (2013) finds that the real prices of most commodities has not been upward in the long run. The exceptions are precious metals (not a vital resource from Francis's point of view) and petroleum.

diminishing around the world. In *Laudato si',* he speaks of "growing poverty" and says that "[t]he exploitation of the planet has already exceeded acceptable limits and we still have not solved the problem of poverty" (*LS*, 25, 27).

According to economists, however, the numbers simply don't support this position. Branko Milanovic (2016) has traced out the worldwide income distribution in recent decades as people in countries around the world have used markets to expand trading and as technology—largely developed by the world's profit-driven firms—has spread to poorer countries. His numbers are stunning and show that the whole world is getting richer. Most importantly, the stark poverty of the left tail of the worldwide income distribution has fallen substantially. He estimates, for example, that from 1988 to 2008 real incomes of those incredibly poor people living at the fifth percentile of the world's income distribution rose by about 15 percent, by 40 percent at the tenth and twentieth percentiles, and by more than half at the thirtieth to the fiftieth percentile (2016, 11).

Another empirical fact that most economists accept but Pope Francis does not mention is the vast improvement in the quality of the environment in many places throughout the world. For many pollutants, economists have identified a pattern in which emission levels rise as countries begin developing economically but then peak once the countries pass a middle economic level and begin to fall as they become richer. The good news is that overall levels of pollution now peak at lower levels than in earlier decades—largely because of cleaner technologies developed in the most advanced market economies (Yandle, Vijayaraghavan, and Bhattarai 2002).

But the differences between Francis and most economists (as well as most non-economists) are far greater than these numbers can reconcile. Even if he were to concede that they are correct, his values are simply not aligned with the world's way of thinking. He turns the logic of the world on its head. "When someone is given a higher position—in the world's eyes—we say, 'ah, that person has been promoted. . . . Yes, that's a lovely phrase and we in the Church should use it, yes: this person was promoted to the cross; that person was promoted to humiliation. That is true promotion. It is what makes us more like Jesus" (2013f).

The golden rule of the economy seems to be "I will serve you if you pay me—and we both will be better off." But Francis argues that "[h]umility is the 'golden rule'" (2013b). The golden rule becomes "I will serve you because you are in need." If this view is correct, it's not about bettering ourselves in this world—it's about humbling ourselves, recognizing that we all are lowly and that true power comes from humility.

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