

Equity and Equilibrium: The Relationship between Theology and Economics

Abstract

This paper explicates the relationship between theology and economics in terms of the relationship of all of the sciences to each other within the hierarchy of truth. It denies the possibility of a purely “positive” science by demonstrating the connections between “facts” and “values” and by denying the appeal to a pure natural. The theological governing term for economics is “equity” or “justice” in both its distributive and corrective forms. Neoclassical economics concerns itself only with justice in exchange (corrective justice) and, therefore, cannot give a complete description of any economic system. Having forsaken theological norms, neoclassicism cannot give a coherent account of the relationship between equity and equilibrium. Hence, it tends to increasing injustice and instability on the one hand, and an increasing statism to correct the instability on the other. This hole in economic theory may be filled by notions of distributive justice from Catholic Social Teaching.

1. Introduction

Perhaps no question in economics is as contentious as the relationship of religion and economics. It is contentious precisely because there seems to be no way of resolving the issue based on any empirical data. Many economists fear, quite rightly, that incorporating religious or theological arguments and methods will involve them in disputes beyond their expertise, disputes which they can in no way

resolve. On the other hand, is it possible to engage in any humane science without some normative concept of what it means to be human, a concept that must refer itself to philosophy, anthropology, and theology? For example, if psychology cannot determine what a human ought to be, how can it define any behavior as pathological? If loving your neighbor and killing your neighbor are merely two different ways of being in the world, then what is there for the psychologist to do, other than to describe these two activities? If depression is not a departure from some human norm, then what is there to treat? Without some norm, is there anything for the social scientist to do, other than to passively record actions?

This brings us right back to our first conundrum: By submitting his science to some normative concept, the social scientist involves himself in issues which he cannot resolve. Indeed, the theologians seem to be worse than the economists at settling their differences; why would an economist want to involve himself in their esoteric debates? Is it not enough for him to observe the event regularities and let the theologians worry about social norms? Should he merely state the scientific facts and let the philosophers worry about the values? Most especially, can the economist allow his discipline to be “subsumed” into theology, as recently argued by Clive Beed?¹ And if so, which theology?

¹ Clive Beed, "What Is the Relationship of Religion to Economics?," *Review of Social Economy* LXIV, no. 1 (2006): 42.

Christian or Muslim, Catholic or Reformed? Just to state the question is to invite the conscientious economist to avoid it and stick to his own trade. Faced with such questions, it is natural for the economist to retreat to a purely “positive” view of his science and to brook no interference from the theologians.

This paper argues that such a retreat to positivism, tempting as it may be, is impossible; every economic theory is, willy-nilly, normative: it will always rest on some specific view of man and some definite notion of justice. Its assumptions may be implicit or explicit, but they will always be present. As long as the assumptions are only implicit, they will be hidden, and hidden even from the economist who advances them. They will reside in the dark corners of the mind and, hence, remain beyond question, even if they are beyond belief; the task is to make them explicit where they can be examined in the light of the intellect to see if they will stand the scrutiny. These assumptions, although they are the necessary starting point for economic analysis, will always lie beyond economics and, hence, will require consultation with higher disciplines.

What is at stake here is not only the relationship of theology and economics, but, more generally, the relationship of all sciences to each other; theology and economics must be related by the same rules that relate any two fields in the scientific hierarchy. But is theology really a part of this scientific hierarchy? This question turns on whether there can be “facts” without values, or, more generally, whether we can make a distinction between the ontological and the deontological, between “what is” and “what ought to

be.” If such a distinction is valid, then the retreat of the social scientist into positivism is secure. If not, then we must make explicit the relationship of the “normative” to the “positive” and demonstrate why a complete description of reality is impossible without both. In the case of economics, we will explore this issue by examining the relationship between equity (a mostly theological term) and equilibrium (a mostly economic term) and show why the neoclassical description of the relationship cannot be a complete description of reality.

2. Facts without Values?

Few distinctions are as enshrined in popular and scientific thought as the distinction between facts and values. As D. Stephen Long has noted, “The fact-value distinction has become so determinative in the modern world that we seldom even recognize the many ways our politics, economics, even our theology assume and perpetuate this distinction.”² Neoclassical economic theory is entirely dependent on this distinction. . As Milton Friedman puts it,

Positive economics is in principle independent of any particular ethical position or normative judgments. As [J. N.] Keynes says, it deals with “what is,” not with “what ought to be.” Its task is to provide a system of generalizations that can be used to make correct predictions about the consequences of any change in circumstances. Its performance is to be judged by

² D. Stephen Long, *Divine Economy: Theology and the Market*, ed. Catherine Pickstock John Milbank, Graham Ward, *Radical Orthodoxy* (London and New York: Routledge, 2000), 3.

the precision, scope, and conformity with experience of the predictions it yields. In short, positive economics is, or can be, an “objective” science, in precisely the same sense as any of the physical sciences.³

Even committed Catholics accept this distinction, and accept it to the point of ridiculing the idea of a “Christian economics.” For example, Michael Novak declares that an attempt “to try to run an economy by the highest Christian principles is certain to destroy both the economy and the reputation of Christianity.”⁴

It would be too easy to blame the prevalence of this distinction on the effects of Enlightenment empiricism, but the idea actually traces itself back to the work of medieval theologians who insisted that the material world reflects the eternal order of God; the material world operates on God-given laws which could be known without any direct reference to theology. This allowed a certain autonomy for the physical sciences. However, this distinction was not a real distinction, but a methodological one, and a method that is confined to physical motions; the motions of the human will could not so easily be measured and numbered. With the Enlightenment divines, however, the distinction became a real one, became an *ontological* distinction, one that extended even to human motions. Even matters of divinity and metaphysics were

subject to experiment, quantity and number; as David Hume put it,

When we run over libraries, persuaded of these principles, what havoc must we make? If we take in our hand any volume; of divinity or school metaphysics, for instance; let us ask, Does it contain any abstract reasoning concerning quantity or number? No. Does it contain any experimental reasoning concerning matter of fact and existence? No. Commit it then to the flames: for it can contain nothing but sophistry and illusion.⁵

“Hume’s fork” is by now so enshrined in our thinking that it has become traditional, with even Christian economists joining in his book-burning without a second thought. Perhaps the best example of the Christian expression of this ontological distinction comes from Alejandro Chafuen, who posits a distinction in natural law itself between the “analytical” and the “normative,” a distinction that he believes is present in Scholasticism. In Chafuen’s account, only the analytical natural law has any real ontological status, since it alone describes “what is” while the normative describes only “what ought to be.”⁶ For Chafuen, “ethical considerations... have no impact on underlying truths”⁷ and “no

³ Milton Friedman, *Essays in Positive Economics* (Chicago: University of Chicago Press, 1953), 4.

⁴ Michael Novak, *The Spirit of Democratic Capitalism* (New York: Simon & Schuster, 1982), 352.

⁵ David Hume, *An Enquiry Concerning Human Understanding* (1748 [cited April 3 2006]); available from http://www.infidels.org/library/historical/david_hume/human_understanding.html.

⁶ Alejandro A. Chafuen, *Faith and Liberty: The Economic Thought of the Late Scholastics* (New York: Lexington Books, 2003), 25.

⁷ *Ibid.*, 24.

ethical judgment can invalidate an economic law,"⁸ a law arrived at without regard to ethics.

Chafuen states that this distinction is actually not present in the Scholastics, but is merely implicit.⁹ However, the scholastics *do* deal directly with this question; they deal with it under the rubric of the "doctrine of the double truth" which appears in Siger of Brabant and Jean Gerson, among others. This doctrine is generally condemned, both by the Church and the preponderance of Scholastic thought. For the Scholastics, natural law does not exist in a realm of pure "facticity," but is always an appreciation of the "proper act and end" of things.¹⁰ Thus natural law is a matter of discerning the *telos* or purpose of things, and this can only be reached theologically, as I will later show. As a practical matter, the motions of mere matter can be measured without reference to the underlying theology; however, this is simply not true of the motions of markets, or indeed of any human motions or emotions. Rather than an economics divorced from ethics, we may say that the market is inhuman and unnatural to the exact extent that it is unethical.

However, a question arises as to whether Chafuen (and the moderns in general) have a proper understanding of "natural law." Can there be a "value-free" law for humans? The answer to this question depends on one's theology. The older view of natural law situated it

within a discernment of the meanings of things, that is, within their *proper acts* and *ends*. Thus, natural law would always involve a *teleology*, a perception of final meaning, but such perceptions involve philosophical, theological, and cultural questions. The Enlightenment version of natural law sought to divorce natural law from any moral or theological authority. Is this actually possible?

Let us take a simple deduction from "nature": "Lions eat lambs; therefore the strong prey on the weak!" The conclusion would seem to be an unavoidable deduction from the indubitably factual premise, a pure instance of a "natural law," blissfully free of any moral or theological foundation. But in fact it contains a hidden assumption: the premise concerns animals, but the conclusion is applied to men. Is this valid? Yes, if man is no more than an animal; no, if man transcends the animals. If the latter is true, then natural law can never be just a "reading" of nature, but must be guided by a consideration of the end and nature of man. Can the issue be resolved one way or another by an appeal to pure reason? No, because both views rest on a purely theological foundation. Man may or may not be just an advanced animal and nothing more. Certainly, he is an advanced animal, but the status of the "something more" cannot be proved—or disproved. Certainly, both men and lions enjoy a leg of lamb for lunch; quite possibly, speech is no more than an advanced form of roaring or baying. There is simply no "proof" that men transcend, or do not transcend, the animals; it is a matter of faith and faith alone. Therefore, the question of whether the proposition is a valid deduction from natural law depends not

⁸ Ibid., 25.

⁹ Ibid., 20.

¹⁰ St. Thomas Aquinas, *Summa Theologica*, trans. Fathers of the English Dominican Province, 5 vols. (Allen, Texas: Christian Classics, 1981; reprint, 1981), I-II, 91,2.

on the raw “facts” (which cannot be disputed) but on the theology by which one reads those facts. And this will be true for every statement which purports to be a “value-free” conclusion from natural law. The only question is whether the values are explicit or hidden; if the latter, men will delude themselves into thinking that their thinking is “value-free,” when in fact it is a mere attempt to impose their values on others. The solution is never to proclaim a “value-free” conclusion, but to make the values that underlie the conclusion explicit.¹¹

A realm of pure “facticity” in human affairs is doubtful. All human observation requires some theoretical framework to make sense of the mere sense impressions. The theoretical framework always involves some value judgments.¹² For example, in measuring unemployment, the economist must...

¹¹ An objection might be raised at this point from the physical sciences. Astronomy, for example, appears to function quite well without the help of the theologians. Indeed, given the Galileo affair, they even seem to function much better without the assistance of the Roman clergy. However, this is a trick of perspective. Two points must be kept in mind. The first is that Western science itself is a theological development in which the physical order itself reflects the order and faithfulness of God, and hence can be studied independently, as it were, as another form of revelation. The second point is that for purely physical motions, their *acts* and *ends* tend to be identical; once the act has been described (say, the orbit of a planet), the end has also been described. Thus, there is normally no reason to consult the underlying theology, except at the extremes, such as cosmology and quantum physics.

¹² Charles M.A. Clark, "Catholic Social Thought and the Economic Problem," review of Reviewed Item, *Oikonomia*, no. 1 (2005), <http://www.pust.edu/oikonomia/pages/febb200/Clark.htm>.

...first start by making the decision that it needs theoretical explanation and second [he] must define what unemployment is, both of which are blatantly value-laden (and political) activities. Furthermore, the choice of what methods to use to investigate this phenomenon also involves value judgments, as does selection of the critical criteria about what will be accepted as the “final term” in the analysis, the bases of what arguments will or will not be accepted. However, values and value judgments enter into theory construction on the ground floor by giving the theorist the “vision” of the reality s(he) is attempting to explain. This “vision” is pre-analytical in the sense that it exists before theoretical activity takes place.¹³

Even if the fact-value distinction could be maintained, it is not always clear which are the “facts” and which are the “values.” For example, if we take the distinction seriously, we must allow the following case:¹⁴ Mrs. Harris is an attorney at the top of her profession who bills her time at \$500/hour. Mr. Harris, on the other hand, is a bit of a lout. He calls her at work demanding a bit of “afternoon delight.” Wishing to be a dutiful wife, she considers her options. Since she is not only an attorney, but also has a neoclassical education, she knows that the decision will turn on the opportunity costs of her choices. She can

¹³ Charles M.A. Clark, "Economic Insights from the Catholic Social Thought Tradition: Towards a More Just Economy," (2005).

¹⁴ Adopted from Long, *Divine Economy*, 4-5.

go home for an hour and lose \$500, or she can call an escort service to provide a suitable surrogate for \$150. Thus she must measure the gain of \$350 against the loss of \$500 and decide how the “opportunity cost” compares to the relative values of sexual pleasure and infidelity. Now, an economist might say that the “facts” of the case involve the opportunity costs, while the concepts of adultery and fidelity are mere values. But this is not at all clear. The relative prices of lawyers and prostitutes are mere social valuations that change from culture to culture and, indeed, from moment to moment; they seem to lack the ontological grounding that one would expect from a “fact.” On the other hand, adultery is a fact which “has much more concrete or empirical reality than the putative economic facts mentioned. We can point to the historical embodiment of something called ‘adultery’ much more readily than something called ‘opportunity cost.’”¹⁵

It would seem, therefore, that the world, much less natural law, cannot be neatly divided into a realm of “facts” and a realm of “values.” While there may be, at certain times and in certain cases, a methodological advantage in making such a distinction, it is merely a way of speaking of things for limited purposes and involves no real ontological distinction. Therefore, Chafuen’s case for a division in the natural law would seem to have failed.

3. Science, Normative and Positive

If there is no division in the natural law, then neither can there be such a division in the sciences; and if

there is no space between facts and values then neither is there room for *either* a purely normative or a purely positive science. *Every* science, insofar as it really is a science, is *both* positive and normative. Every science, insofar as it is a science, must be “normalized” to some criteria of truth. These truths will arise from two sources, an internal and an external source. The internal criteria arise from a science’s proper subject matter and methodology. But by themselves these criteria are insufficient to found any science as a science. In addition, there must be external criteria of truth, and these truths can only come from one or more higher sciences. In the absence of such an external check, the “science” will merely be circular, dependent on nothing but itself and unconnected with the hierarchy of truth. Thus, for example, biology is responsible to chemistry, chemistry to physics, physics to metaphysics. No biologist can violate the laws of chemistry, and no chemist can reach a conclusion contrary to physics. Thus every science is responsible to its own methodology (and therefore “positive”) and to the higher sciences (and therefore “normative”). Every science has, therefore, both its own proper autonomy, based on its subject matter and methodology, and its own proper connection to the near sciences, based on the hierarchy of truth. In speaking of the autonomy of a science, we should note that it is only a *relative* autonomy, not an absolute one. A scientist’s obligation to be faithful to his proper method does not relieve him of the obligation to higher truths.

No science can provide its own criteria entirely without being merely circular. When a science attempts to do so, one of two things happens. The first

¹⁵ Ibid., 5.

possibility is that the science breaks up into mutually warring camps whose disputes can never be resolved because there are no accepted criteria of truth by which to resolve them. The second possibility is that the science becomes merely dogmatic and no rational examination of its premises is permitted.¹⁶ In economics, both things have happened; the “science” is divided into warring factions with no arbiter of truth among them, and; the principles of the various factions have become dogmatic statements with little connection to reality.

We should note that, despite the hierarchy of truth, the traffic is not one-way, from the top down. Biology, for example, can pose questions to chemistry that the chemists by themselves may not have considered. The biologists can raise objections to certain formulations of the chemists or suggest new experimental situations. Nevertheless, the answers will still have to conform to the methodology of chemistry. In the same way, economics has the power of enlightening theology. Theology is concerned, *inter alia*, with justice, the same question that is intrinsic to economics. As has already been mentioned, theology can provide standards of justice, but the application and meaning of these standards will always be a matter of specific cultural and social realities, realities that are measured by the economists. Thus we may say that there is a mutuality of

dependence of the two sciences that exists within a hierarchy of truth that subordinates one science to the other.

But this is to get somewhat ahead of ourselves, since it is first necessary to determine what the “higher sciences” are for economics. Now, the physical sciences terminate in physics, but the humane sciences terminate in some view of man derived ultimately from philosophy and theology. Therefore, theology must be the ultimate source of truth for economics with, perhaps, some intermediate stops at psychology and sociology. It would seem to be self-evident that a complete view of man would involve theology, philosophy, sociology, and psychology, yet this view is not at all universally (or even generally) accepted by economists. How is it possible that a humane science can cut itself off from these indispensable sources of knowledge about humans? The answer lies in the fact that neoclassical economists accept as a purely *economic* truth that which is, in fact, a purely philosophic stance, namely that of Jeremy Bentham’s Utilitarianism. The purest expression of this is in Ludwig von Mises’s tome, *Human Action*. The very subtitle (“*A Treatise on Economics*”) gives the game away; for Mises the thesis is not, as it appears to be, a philosophic one, but a purely economic one. Mises states that his theory has the same epistemological status as do logic and mathematics, stating that it is “unconditionally valid for all beings endowed with the logical structure of the human mind.”¹⁷

¹⁶ An example of this is the use of “random mutations” as an explanation for the evolution of species. The principle can neither be demonstrated from any of the higher sciences nor tested by the methods available within biology. Hence, it can survive only by becoming an untouchable dogma.

¹⁷ Ludwig von Mises, *Human Action: A Treatise on Economics*, 4th Revised ed. (San Francisco: Fox & Wilkes, 1963), 57.

We do not here enter into the debate about whether Mises is right or wrong about the economics, but only whether his thesis is a philosophic one, to be judged by the methods of philosophy, or an economic one, lying totally within the domain and methodology of the economists. Even the most ardent utilitarian is likely to concede that his philosophy is one about which reasonable men may disagree, without having the logical structure of their minds brought into question. But Mises cuts off such objections by making his discipline completely autonomous. This, in turn, makes the whole discipline circular: it depends on "truths" which its own method supplies. In effect, the discipline becomes its own theology and its "truths" mere dogmatism and, hence, beyond all questioning.

4. Justice and Economics

If what has been said so far is correct, then we would expect to see a number of terms and concepts used in economics which, in fact, must be referred to higher disciplines. Some of these terms include "freedom" (as in "free" markets), "liberty" (as in "the perfect system thereof"), human motivation (as in the issue of "self-interest" versus "self-respect"¹⁸), "utility" (as in, "what makes something useful to humans?"¹⁹), and so forth. All of these terms are necessary to economics and used by economists. However, the competence of economics

simply does not extend to these terms; the economist, *qua* economist, cannot define these terms and must depend on other disciplines, implicitly or explicitly, or else condemn his own discipline to an unbreakable circularity. But above all of these terms, there is one term in which all the other terms may be subsumed, and that term is *justice*. Justice in theology and philosophy governs all relations between men, and therefore governs economics, which is about social provisioning. But since justice is a social relationship, its concrete meaning must be worked out through culture and history.

The reflection on the relationship of justice to economics begins with Aristotle. For Aristotle, justice is not just a part of virtue, but "virtue entire, nor is the contrary injustice a part of vice, but vice entire."²⁰ Justice underlies all the virtues and deals with the relations of man and man:

And therefore justice is often thought to be the greatest of virtues, and "neither evening nor morning star" is so wonderful; and proverbially "in justice is every virtue comprehended." And it is complete virtue in its fullest sense, because it is the actual exercise of complete virtue. It is complete because he who possesses it can exercise his virtue not only in himself, but towards his neighbor also.²¹

In is within this relationship of man to man, that is, within justice, that

¹⁸ Robert W. Faulhaber, "The Rise and Fall Of "Self-Interest"," *Review of Social Economy* LXIII, no. 3 (2005): 421.

¹⁹ John D. Mueller, *God and Money* (Washington D. C.: ISI Books, Forthcoming, 2006), 90.

²⁰ Aristotle, *Nicomachean Ethics*, ed. Richard McKeon, trans. W. D. Ross, *Introduction to Aristotle* (New York: Modern Library, 1947), 11139a, 10.

²¹ *Ibid.*, 1129b, 25.

Aristotle locates economics. He presents a sophisticated analysis that includes a demand function, a distinction between use and exchange values, the function of money as the medium between value and demand (or “need”) and usury, among other things. Aristotle begins his reflection with the family, for “The family is the association established by nature for the supply of men’s everyday wants.”²² It is the family, and not the individual, that is the starting point (contrary to modern economics) because only the family is self-sufficient; an individual in isolation can neither reproduce nor provide for himself.²³ Man, for Aristotle, is a social being always using language and reason and always embedded in a cultural milieu, and that milieu is governed by justice, understood in two senses: distributive and corrective justice.

Distributive justice deals with how society distributes its “common goods.” Aristotle defines this as “things that fall to be divided among those who have a share in the constitution.”²⁴ This refers to the *common* goods of a state, a partnership, or some cooperative enterprise. For Aristotle, these things should be divided by “merit” based on contributions, but what constitutes this merit will be a matter that is determined culturally, “for democrats identify it with the status of freeman, supporters of oligarchy with wealth (or with noble

birth), and supporters of aristocracy with excellence.”²⁵

Corrective justice,²⁶ on the other hand, deals with “justice in exchange”; that is with transactions between individual men. In this case, justice consists in exchanging equal values, in “having an equal amount before and after the transaction.”²⁷ The problem is how to determine what values are equal when dealing with dissimilar products, which is nearly always the case. To use Aristotle’s example, how many pairs of shoes are equal to one house? The only way to know this is by “need,” which many economists understand as the demand function mediated by money. Thus the demand for houses and shoes can be compared by looking at their prices and the two can be equated in terms of money. Money, however, is a social convention: “this is why it has the name money (*nomisma*)—because it exists not by nature but by law

²⁵ Ibid., 1131a, 25-29.

²⁶ During the Middle Ages, the term “corrective” justice became “commutative” justice due to a mistranslation. The word Aristotle uses is *διόρθωτικός* (*dióρθotikós*), “corrective” (LSJ). Although the term “commutative” has become more common, we will use the term “corrective” as closer to the original sense in Aristotle. The Philosopher seems to have modeled the distribution of output in terms of the thing produced. Thus the cobbler received a number of shoes proportional to his contribution to the production process, while the carpenter received a certain number of tables and chairs. This is distributive justice. Since neither needed that many shoes or chairs, they then exchanged between themselves to correct the imbalance. This is corrective justice. Of course, cobblers and carpenters are paid not with actual shoes and chairs, but with money. Nevertheless, the corrective and distributive principles remain the same.

²⁷ Aristotle, *Ethics*, 1132b, 19-21.

²² Aristotle, *Politics*, ed. Richard McKeon, trans. Benjamin Jowett, *An Introduction to Aristotle* (New York: The Modern Library, 1947), 1252b, 11.

²³ Ibid., 1253a, 26.

²⁴ Aristotle, *Ethics*, 1130b, 31-33.

(*nomos*).”²⁸ . Thus the requirement for equality in exchange comes from the natural law, but the method of implementing it is legal or conventional. This combination of natural law and social convention means that economics cannot be reduced to either one alone; That is to say, an economy can never be either totally fixed by science nor be a set of arbitrary social conventions.

Distributive justice, then, is a distribution of the products of a group distributed to the members of the group, while corrective justice deals with exchanges between individuals. Distributive justice will be proportional to one’s contribution to the group, and hence there can be unequal distributions based on unequal contributions. Corrective justice, on the other hand, will always involve equal amounts, like for like. We can note here that the two species of justice will lend themselves to different types of calculations. Corrective justice deals with the equality of thing and thing, mediated by a third thing (money). Thus, it forms a kind of three-body problem and will be subject, at least in principle, to the kinds of complex calculations used in multi-body problems. Distributive justice, on the other hand, involves a judgment of relative “merit.” This judgment cannot be reduced to a “calculation.”²⁹ For

example, the relative compensation of line workers and CEO’s cannot be “calculated”; a judgment must be made as to the economic “merit” of each kind of work. The claim may be made that such distributions are the result of the “marginal productivity” of the respective parties, but the actual rise of the pay of CEO’s and other top executives in the last 20 years makes this a hard claim to credit.³⁰

This difference in the types of judgments used in calculating distributive and corrective justice goes a long way towards explaining why neoclassical economics has avoided the subject of distributive justice and staked its whole claim on formulations of corrective justice (see the next section). The “mathematical” bias of neoclassicism makes distributive justice problematic because it forces unwanted social and cultural elements into the “calculations,” elements which cannot, in fact, be mathematically calculated.

Up until the 15th century, the unity of distributive and corrective justice was recognized both implicitly and explicitly. Medieval “just price” theories aimed at eliminating economic rents while insuring each person a standard of living commensurate with his “station in life.”³¹ However, by the 16th century, as new forms of ownership

will be involved which no mathematician can do away with.

³⁰ John C. Bogle, *The Battle for the Soul of Capitalism* (New Haven & London: Yale University Press, 2005).

³¹ Mary L. Hirschfeld, *Standard of Living and Economic Virtue: Building a Bridge between St. Thomas Aquinas and the 21st Century* (2005 [cited December 17 2005]); available from http://www.nd.edu/~econplcy/workshops/documents/jsce_paper.pdf.

²⁸ Ibid., 1133a, 25-31.

²⁹ An exception to this exists when the contribution can be measured in homogenous terms. For example, if we are talking about monetary contributions to an investment, or of the same kind and quality of labor, then the proportions can be easily calculated. But when, for example, one contributes a certain amount of money, and another contributes labor, there is no way to calculate the relative merit of the contributions; some judgment and negotiation

and production began to take hold, a more individualistic approach to economics gradually developed. The ethical framework of medieval economics came under attack, but there was little to replace it. Or rather, what sought to replace it was a new concept which preached quite openly that “greed is good.” This idea was most famously expressed in Bernard Mandeville’s *Fable of the Bees: or Private Vices, Publick Benefits* (1724) “in which he put forth the seemingly strange paradox that the vices most despised in the older moral code...would result in the greatest public good.”³² Since Mandeville’s day, the entire economic question has centered around the miraculous transformation of “the water of ‘self-interest’ into a wine of public interest.”³³

This problem loomed large for Adam Smith. In the *Wealth of Nations*, Smith includes both kinds of justice, but they are disconnected from each other. Smith’s “labor theory of value” is a distributive theory, while the “invisible hand” is a theory of exchange. Since the labor theory of value is about production, it is inherently a theory of distributive justice, since production is always a social process. The invisible hand is about exchanges between individuals, and hence falls under corrective justice. Smith can never join the two halves of the theory into a coherent whole. There are even “two Smiths” in the rhetoric of his book: the rhetoric of Smith the labor theorist is one of anger with the merchant class, a class

Smith views as conspirators attempting to impose monopolistic pricing upon the public and manipulate the government to their sole advantage. But in the rhetoric of the invisible hand, this same merchant-conspirator becomes a public benefactor whose purely private interests result in the common good. The rhetoric of Smith the Labor Theorist is enough to please the most rabid socialist,³⁴ while the rhetoric of Smith of the Invisible Hand soothes the neo-con.³⁵ After Smith, economic theory bifurcates into two contending traditions, the labor theorists and the utilitarians. The labor theorists, such as Ricardo, Hodgskin, Marx, Mill (to a degree), and Veblin, worry about just distributions from production. The utilitarians, such as Say, Senior, and Bastiat, deal with exchange theories. Neither side can offer a complete description of the economic situation, try as they might.

This unsatisfactory situation continued for most of the 19th century. But towards the end of the century, a new theory arose which seemed to solve all the problems of economics by subsuming distributive justice into corrective justice. Many economists hit upon the solution more or less at the same time, including W. S. Jevons, (1835-1882), Léon Walras (1834-1910), Carl Menger (1840-1921), and Alfred Marshall (1842-1924). The solution was to use not *total* utility, but *marginal* utility—that is, the value of the last increment. This marginal increment is not as valuable (or “useful”) as the next to last increment. Marginal utility has a

³² E. K. Hunt, *History of Economic Thought: A Critical Perspective* (Armonk, New York and London, England: M. E. Sharpe, 2002; reprint, Updated 2nd edition), 33.

³³ Faulhaber, "The Rise and Fall Of "Self-Interest", " 418.

³⁴ E. g., Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Amherst, New York: Prometheus Books, 1991), 137, 219.

³⁵ E. g., *Ibid.*, 351-2.

charming simplicity about it. Think of being thirsty. At such times a glass of water or soda will have a certain value to you which can be expressed as the price you are willing to pay. But after the first glass, the second is much less valuable, and the third has no value at all. Each successive increment has a *marginal* utility, that is, the change in utility from each successive increment can be expressed mathematically as the first derivative of total utility.

Marginal utility proved to be a universal solvent, washing away all the problems of classical economics. Underlying his general theory was a theory of the human person based on Bentham's hedonism. As Jevons put it, "Bentham's ideas...are...the starting point of this work." "I have attempted to treat economy as a calculus of pleasure and pain and have sketched out...the form which the science must ultimately take."³⁶ This assumption is important because marginal utility only makes sense if people normally act to maximize their "marginal" pleasures. In any other theory of the human person, marginal utility would be extremely limited. But assuming such a model of human behavior, then one could easily show that such "humans" would be forever comparing prices and utilities at the margin and adjusting their purchases to maximize their pleasures. For example, if one had two commodities, x and y , and could only get another x by giving up some y , then one could compare the ratios of one's own subjectively determined marginal utilities for the products, MU_x/MU_y , with the prices of the two commodities, P_x/P_y . If the ratio

$MU_x/MU_y > P_x/P_y$ then one could gain some utility by trading some x for some y . The process of comparing utilities and prices would continue until the person had exhausted the gains possible by exchange.³⁷ This application of the equations of differential calculus to questions of human behavior was considered a great advance; the "invisible hand" of Adam Smith acquired a visible mathematics.³⁸

The enthusiasm for the new calculus was such that it quickly became the reigning economic orthodoxy. Economics could at last escape the clutches of philosophy and become a "pure" science. As Jevons put it, the lack of a "perfect system of statistics ... is the only ... obstacle in the way of making economics an exact science"; once the statistics have been gathered, the generalization of laws from them "will render economics a science as exact as many of the physical sciences."³⁹ But while the system was certainly mathematical, was it also just? One of the founders of marginalism, John Bates Clark, believed that it was and believed that he could demonstrate this from mathematics alone.

5. Justice and J. B. Clark

Clark attempted to show that marginal utility was not only a scientific "fact," but that it revealed the very workings of the moral order. The low wages paid to workers is all they deserve

³⁶ Quoted in Hunt, *History of Economic Thought*, 251.

³⁷ *Ibid.*, 253.

³⁸ Paul Ormerod, *The Death of Economics* (New York: John Wiley & Sons, Inc., 1994), 52.

³⁹ Quoted in James E. Alvey, "A Short History of Economics as a Moral Science," *Journal of Markets and Morality* 2, no. 1 (Spring, 1999): 62.

because they fairly represented the workers' "marginal utility" to the production process. Further, there was nothing the employer could do to change the wages, because while wages might *appear* to be based on the free bargaining of the free market, they are in fact merely responding to "a deep acting natural law" which dictates the outcomes for these apparently "free bargains."⁴⁰

*Where natural laws have their way, the share of income that attaches to any productive function is gauged by the actual product of [that function]. In other words, free competition tends to give labor what labor creates, to capitalists what capitalists create, and to entrepreneurs what the coordinating function creates.*⁴¹

The task for Clark was to show that the marginal wage, the wage of the least productive person (or as Clark termed him, the "marginal man"⁴²) represented the "specific product of labor," and of labor alone. Clark argued that it was possible to fix the specific amounts of production that were separately attributable to capital and labor.⁴³ If the product of the one could be fixed, then the product of the other would be the remainder. To fix the portion of the product attributable to labor alone, Clark reasoned that the "marginal man" could be hired "with no change in the amount or character of

capital goods."⁴⁴ Therefore, the amount he added to production—and this amount alone—was the only part of production attributable to labor alone and constituted the "specific product of labor." Labor was therefore entitled by "natural law" only to this part of the produce. Clark made no attempt to fix the "specific product of capital"; he merely assumed it was the whole product minus the wages.⁴⁵

Clark believed that the forces of free competition would force prices to equal the cost of production,⁴⁶ driving the rate of profit to zero, so that the entrepreneur would earn little more than the worker.

Normal prices are no-profit prices. They afford wages for all the labor that is involved in producing the goods, including the labor of superintending the mills, managing the finances...and doing all the work of directing the policy of the business. Beyond this, there is no return, if prices stand at their normal rate; and the reason for this is that *entrepreneurs* compete with each other in selling their goods, and so reduce prices to the no-net-profit level.⁴⁷

This introduces a conundrum into the theory: the whole system depends on the entrepreneur who seeks a profit, yet, to the degree that the theory works at all, no profit is possible. Moreover, one can certainly ask whether, in a social process, there really are separable—and

⁴⁰ John Bates Clark, *The Distribution of Wealth: A Theory of Wages, Interest, and Profits* (New York: Augustus M. Kelly, 1899; reprint, 1965), 3.

⁴¹ *Ibid.*

⁴² *Ibid.*, 94.

⁴³ *Ibid.*, 47.

⁴⁴ *Ibid.*, 101.

⁴⁵ *Ibid.*, 195.

⁴⁶ *Ibid.*, 16.

⁴⁷ *Ibid.*, 111-2.

severally calculable—products of capital and labor. One of the reasons that neoclassicism could abandon distributive justice is that it no longer regarded production as a social process, but as a potentially infinite series of individual exchanges culminating in an exchange with nature.⁴⁸ However, it is not our purpose here to critique the theory; our interest is not so much in the scientific claims of the theory, but in the moral ones.

The moral claims of neoclassicism are lofty indeed. When the state of competitive equilibrium is reached, then all factors of production—land, labor, and capital—will be both fully utilized and fairly compensated at rates normalized to each other. Thus, there would be neither extreme wealth nor poverty; economic rents would be eliminated and prices driven to the costs of production. Clark believed that in the workings of marginal productivity he had discovered the workings of God himself; he published in purely religious journals claiming to have worked out the laws of the moral order, “natural laws” which was merely the working of God’s plan and which would eventually lead to the New Jerusalem, the kingdom of God on Earth.⁴⁹ But this happened in a deterministic fashion, under the auspices of a mechanistic God. The market itself becomes a theodicy by which social cohesion is provided without any human

plan or intentionality.⁵⁰ It is only necessary to set up a market system and providence will take care of the final outcomes.⁵¹ As John Milbank remarks, somewhat bitterly,

Economic theodicy is conjoined with an evangelicalism focused on a narrow, individualist practical reason which excludes the generous theoretical contemplation of God and the world (this is thinned down to a simple acceptance of positive revealed data which ensures salvation). ...Indeed, such a mean little heresy today increasingly defines ‘Christianity’, and once again helps to shape Anglo-Saxon social reality.⁵²

Nevertheless, if Clark’s claims are correct, then it is a remarkable achievement. All of economics, and all of justice, are reduced to the “science” of exchanges, that is, to corrective justice. Aristotle’s claim that distributive justice has an irreducible cultural element would be false and economics would be a completely self-contained science that is entirely free of moral, historical, or cultural elements. If Clark is correct, then Aristotle must be wrong. Any attempt to introduce normative considerations into economics would be counter-productive; such intentionality would not only be “anti-scientific,” it would run counter to providence itself. Nor would distributive justice be the worse off; all the things that the

⁴⁸ One wonders who it is that bargains on behalf of nature in this “exchange,” or what it is, precisely, that nature receives in exchange for her food, fiber, and mineral wealth.

⁴⁹ Robert H. Nelson, *Economics as Religion: From Samuelson to Chicago and Beyond* (University Park, Pennsylvania: The Pennsylvania State University Press, 2001), 103.

⁵⁰ John Milbank, *Theology and Social Theory: Beyond Secular Reason* (Oxford: Blackwell Publishers, 1990), 38.

⁵¹ *Ibid.*, 40.

⁵² *Ibid.*, 45.

medievalists hoped to attain through a consideration of distributive justice, with all its normative complications, would be attained through corrective justice alone. Such a view would be free of any purely cultural constraints or system of values.

What is most interesting about Clark's theory is that it places equity—the just compensation of labor and capital—subsequent to equilibrium. An equitable distribution of rewards would result *only* when the economy reaches “full-employment” equilibrium. At that point, wages and profits will be normalized to each other, eliminating any great disparities in wealth and poverty, thereby achieving justice while insuring that all economic resources are properly and efficiently allocated. This means that the economic term is *prior* to the theological term, that equilibrium is made prior to justice. Theology is made to be the handmaiden of economics, and the theologian is dependent on the economist to learn the meaning of “justice.” In short, justice results from good economics, rather than good economics resulting from justice. Indeed, the theological term may be ignored entirely, because it will be an automatic result of the system, and needs no conscious effort beyond the purely economic effort.

6. Equity and Equilibrium

The problem with this explication of economic order is that no one has ever seen it happen. Examples of a pure free market equilibrium resulting in an equitable distribution are hard to come by, and, if they exist, they certainly appear to be the exception rather than the rule. Instead, we have seen, for the last quarter century, a widening gap between the rich and poor

even in the presence of a rapidly expanding economy.⁵³ The Libertarian will have a ready answer for this conundrum: “Government meddling in the economy has destroyed the necessary competitive purity of the system; the answer is simply to scale back government interference, and the system will perform as advertised.” This seems to be a plausible reply, but it runs into an historical problem. Clark wrote in 1899, when the scale of government was but a fraction of what it is today. Yet his age was even further from equilibrium than is ours. Indeed, massive government intervention in the economy didn't really start until after World War II. Yet, in the period from 1853 to 1953, the economy was in recession fully 40% of the time; since 1953, it has been in recession only 15% of the time.⁵⁴ One could reasonably conclude that government intervention has moved us closer to equilibrium, not further away, as the theory predicts. Further, even when the economy was not in recession, it was often in a “bubble,” another form of disequilibrium. Thus competitive equilibrium, if it has ever been seen at all, has been seen only rarely.

The suspicion grows, therefore, that there is something missing from the model of competitive equilibrium. The missing element, whatever it is, will be required to explain two things: first, why the theory as stated doesn't work, and; why government intervention, so contrary to the theory, seems to work at

⁵³ Edward N. Wolff, *Top Heavy: The Increasing Inequality of Wealth in America and What Can Be Done About It* (New York: The New York Press, 2002).

⁵⁴ NBER Website, *Business Cycle Expansions and Contractions* (National Bureau of Economic Research, 2006 [cited May 17 2006]); available from <http://www.nber.org/cycles.html>.

least somewhat better than pure competition alone.

The problem, I believe, is that neoclassical economics has reversed the proper order of the sciences; it has elevated the lower term (equilibrium) over the higher term (justice). It is as if the biologists decided to dictate terms to the chemists, or the chemists to the physicists. Both the neoclassicals and the Keynesians treat equity as a *post-condition* of equilibrium. In the neoclassical theory, justice is, at best, an afterthought, if it is even thought of at all; no one need trouble himself over the question, since a purely competitive system will answer the question only so long as no one actually asks it to. However, it turned out that it was necessary, at a purely practical level, to ask the question, as the system in the 1930's seemed ready to collapse into chaos and revolution. The most prominent economist posing the question of justice was John Maynard Keynes. Keynes had no real conflicts with neoclassical theory as such; he merely noted that its starting conditions are never fulfilled.⁵⁵ Therefore, the economy...

... seems capable of remaining in a chronic condition of sub-normal activity for a considerable period without any marked tendency towards either recovery or collapse. Moreover, the evidence indicates that full, or even approximately full, employment is of rare and short-lived occurrence.⁵⁶

⁵⁵ John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (San Diego, New York, London: Harcourt, Inc., 1964), 378.

⁵⁶ *Ibid.*, 249-50.

To remedy this condition, Keynes re-introduces the question of distributive justice. He does so in a peculiar way, however. Distributive justice becomes *redistributive*; the neoclassical economy will produce the wealth and the government will tax and redistribute it to insure an aggregate demand sufficient to maintain some semblance of equilibrium. The advantage of the Keynesian system is that it makes justice a conscious concern that can actually be discussed, debated, and addressed. The disadvantage is that it is still a post-equilibrium justice, leaving intact the incorrect order of these terms that is found in neoclassicism. As such, justice becomes politicized, the result of immense bureaucracies. The dangers are that such bureaucracies will end up piling debt upon debt (since it is easier for governments to incur debt than to repay it), and that these very bureaucracies will be captured by powerful groups within the society and will come to serve very narrow interests indeed.

Nevertheless, Keynes correctly located the error of neoclassicism within its starting conditions. As Paul Ormerod puts it,

By definition, any model necessarily abstracts from and simplifies reality. But the model of competitive equilibrium is a travesty of reality. The world does not consist, for example, of an enormous number of small firms, none of which has any degree of control over the market in which it is operating. ... It is entirely illegitimate to make the link between the model and the

observed success of the Western market economies.⁵⁷

The major starting point for neoclassicism is a production capacity widely dispersed throughout “a vast number of firms”; without this starting point, the theory fails in practice. Moreover, the further an economy is from the ideal initial conditions, the further it gets from equilibrium, which leads to further inequities, which leads to further disequilibrium. It becomes a vicious cycle which continues until collapse, at which time some modicum of equity is re-established (mainly by wiping out debts), and the cycle re-starts itself. This gets us very close to identifying the problem with the theory. The theory places equity post-equilibrium. But the pre-condition for the “vast number of firms” starting point is that there is a wide distribution of productive property—land, capital, and human skills—throughout society. This is precisely the condition of distributive justice. Therefore, the theory, which is a post-equilibrium theory with respect to justice, buries a requirement for justice within its starting conditions. Thus the neoclassical theory tries to be, simultaneously, a *pre*-equilibrium and a *post*-equilibrium theory. It is therefore incoherent.

If neoclassical economists took their own theory seriously, they would be the first to object to consolidation within industries, such as what happened within the oil and gas industry; they would campaign against virtual monopsonies like Wal-Mart. But in general, they do not. Neoclassical economists rarely bother to measure the effect of the real departures from their

ideal starting conditions on the observed outcomes; they cling, in despite of their own theory, to the belief that equity will result from equilibrium. To do otherwise would be the equivalent of admitting a fault in the theory, of recognizing its circularity. Worse, it would be to admit purely theological considerations, which runs counter to the whole “positivist” bias. Finally, neoclassicism exhibits a particular blind spot in regard to the distribution of property itself. The theory tends to concentrate solely on equity in incomes and to regard the distribution of property as a “given.” This was evident even in the title of Clark’s book, *The Distribution of Wealth*. But the book makes no mention of the distribution of wealth and concerns itself only with the distribution of incomes. However, it is clear that any actual distribution of income will be primarily dependent on the distribution of the means of production, either the physical means (land and capital), or the intellectual means (education, training, and socialization).

It is worth noting that the wide distribution of property which is required for neoclassicism to work is precisely the central teaching of the social encyclicals of the Catholic Church. From *Rerum Novarum* to *Centesimus Annus*, the Popes are unanimous that the solution to the economic problem is connected with the same dispersion of property that is the hidden assumption of neoclassical theory. It is not that the Church denigrates private property; she teaches that private property is a sacred right. Indeed, a worker’s property is really “nothing else than his wage under a

⁵⁷ Ormerod, *The Death of Economics*, 48.

different form.”⁵⁸. However, it is not an “absolute right,” but is held subject to the “universal destination of goods,”⁵⁹ which arises from the fact that the Earth is meant for the sustenance of all. “God gave the earth to the whole human race for the sustenance of all its members, without excluding or favoring anyone. This is the foundation of the universal destination of the earth's goods.”⁶⁰ What this means is that property is under a social mortgage. It must be available to all and must serve the common good. Thus, while private property is *per se* legitimate,

[Property] becomes illegitimate, however, when it is not utilized or when it serves to impede the work of others, in an effort to gain a profit which is not the result of the overall expansion of work and the wealth of society, but rather is the result of curbing them or of illicit exploitation, speculation or the breaking of solidarity among working people.[87] Ownership of this kind has no justification, and represents an abuse in the sight of God and humanity.⁶¹

Property in land is obviously a limited commodity; when there is unlimited ownership by a few, it must obviously impede the ability of the many to own property. Such unlimited ownership is not really an upholding of private property, but its negation. As G.

K. Chesterton noted, “It is a negation of property that the Duke of Sutherland should have all the farms in one estate; just as it would be a negation of marriage if he had all our wives in one harem.”⁶²

The Popes speak as moral leaders, but as it turns out, they have located (and filled) the gaping whole in neoclassical economic theory. It is precisely the wider distribution of property that is both the indispensable moral requirement *and* the necessary starting point for neoclassical equilibrium. Without this theological starting point, neoclassicism lacks any explanatory power whatsoever. It works well when confined to a theory of exchanges, that is, corrective justice, but without a distributive principle it fails as a complete explanation of the economy, and becomes a mere ideology.

7. Whose Theology?

The very mention of Catholic social teaching might cause the neoclassicist reader of this article, if any there be, to throw up his hands in despair. Even the Catholic economist might be tempted to remark, “If I supposed to have a ‘Catholic’ economics based on the encyclicals, am I also expected to have a Baptist economics based on their reading of the Bible, an Islamic economics based on Sharia, a Hindu economics based on the caste system, and God alone knows what else?” Well, yes. At least, one will have to choose some starting point that is itself beyond the realm of economics. But this is less of a problem than it might appear at first glance.

⁵⁸ Pope Leo XIII, *Rerum Novarum* (Boston: St. Paul Books and Media, 1891), 9.

⁵⁹ Pope John Paul II, *Centesimus Annus* (Boston: St. Paul Books and Media, 1991), 6.2.

⁶⁰ *Ibid.*, 31.2.

⁶¹ *Ibid.*, 43.3.

⁶² G.K. Chesterton, *What's Wrong with the World* (San Francisco: Ignatius Press, 1994), 42.

In the first place, this is hardly much different than the situation that already exists. Even if there we posit contending schools of “Catholic” and “Hindu” economics, the situation wouldn’t be much different from the contending schools of Austrians, Institutionalists, Chicagoans, Keynesians, Sraffians, Socialists, and so forth. One reason that these schools often talk past each other is that they have such different theological starting points, but these starting points are not recognized as theological as such. Consciously recognizing that differences in the schools are often theological or metaphysical will at least have the sides talking about the right issues and using the right methods. This won’t insure agreement, but it may add to clarity.

In the second place, the theological differences between the various theologies are not as great as might be assumed from looking at the differences in religious ritual, scripture, and cultural practice. In areas like justice, there tends to be a certain convergence of opinion. However, it is when there is wide divergence that the economist plays a critical role in the dialogue. Take the following theological statement: “God made a few men to be masters and the rest to be slaves.” Now, there is no way to “prove” or “disprove” such a statement; it rests on a particular narrative of the relationship of God and man and man and man. Scriptural, historical, and experiential evidence can be adduced for either side. The role of the economist is to accept the statement as conditionally “true” and to construct models of an economy built on such a premise. Thus economics, though subordinate to theology, fulfills a critical role in theological discourse; the economist fills out the theological

narrative and gives it concrete meaning. Of course, the models are never perfect, but they are, or can be, approximately correct. Using the work of economists, various assumptions of faith can be compared more fully than theologians, working within their own disciplines alone, could hope to accomplish. The economist, therefore, plays a critical role within ecumenism.

8. Conclusion

Clive Beed would have economics “subsumed” into theology and Milton Freidman would have them separated. But neither solution can be correct. The autonomy of economics, like the autonomy of any science, must be defended. However, this is a relative autonomy, not an absolute one. Economics cannot be a self-contained science because no science can be self-contained. In explicating the connection between the sciences, we must cut off an appeal to pure facticity (which cannot exist), to “positivism” (which denies the relationship of the sciences), or to a “naked” natural law (since natural law itself depends on teleology, which can only come from theology). Economics must derive its critical terms from the higher sciences, and ultimately from theology, but it uses those terms in conformity with its own methodology.

Therefore, without a dependence on theology, economics cannot provide a complete description of the economy. Neoclassicism, in particular, suffers from a lack of an adequate description of distributive justice. It attempts to “swallow up” just distributions by a theory of free exchanges (corrective justice) alone. In doing so, it simply reverses the proper order of equity and equilibrium. It is hardly surprising, therefore, that the equilibrium promised

by the theory remains always a promise and never a fact. Only by recognizing the priority of equity (which is the priority of distributive justice), can economics offer a complete description of economic reality. Without such an adequate description, economic systems must choose between a descent into an increasing cycle of injustice, instability, and chaos, or a redistributive statism that makes each citizen a mere client of the state.

We can, perhaps, clarify the relationship between theology and economics by comparing it to the relationship between peace and justice. The cliché within theology is that “if you wish for peace, you must work for justice.” The economic equivalent is, “If you wish for equilibrium, you must design policies for equity,” for equilibrium is economic peace, and equity is economic justice, and you can never see the former without the latter.

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