Building a Humane Economy

Contemporary Reflections on Morality, Economics, and Human Flourishing

A Compilation of Essays Presented at the Initiative on Faith & Public Life's 2021 Faculty Retreat

Building a Humane Economy

Contemporary Reflections on Morality, Economics, and Human Flourishing

A Compilation of Essays Presented at the Initiative on Faith & Public Life's 2021 Faculty Retreat

Cover image of building in downtown Chesterton, Indiana, by GKChest, Wikimedia Commons.

Contents

Introduction

"Economics," according to the Merriam-Webster dictionary, is "a social science concerned chiefly with description and analysis of the production, distribution, and consumption of goods and services."

Merely reading this brief definition is enough for the average person to lose interest. Yet, debates over economic systems and policies have garnered broad concern for centuries and are a central component of contemporary political agendas. Why is that?

Dense terminology aside, we care about economics because behind the concept of "consumption" are real human beings seeking to provide for themselves and their families. Behind "production" and "distribution" are people with dignity, creativity, talent, and unique callings. In other words, economic systems do not exist—nor should they be defended or critiqued—for their own sakes. Economic systems exist to serve human beings, to respect their dignity and provide conduits for their creative potential—and, in doing so, to help foster a flourishing society.

However, we easily forget these fundamental purposes of the economy. We become so focused on the minutiae of particular economic problems that we lose sight of the bigger picture. Creatures of habit, we become victims of inertia without giving much thought to where economic forces are actually taking us. Fortunately, such forgetfulness eventually plants the seeds for recalibration, which is what seems to be happening now in American life.

On both the right and left, an increasing number of Americans are starting to question whether the current economic arrangement is serving the interests of the American people writ large. These critiques take different forms, and the proposed solutions are even more diverse: everything from increased tariffs to antitrust policies, paid family leave, Medicare for All, and a universal basic income. Yet, they share a fundamental concern: that our system is not—to put it in the words of this essay compilation—adequately *humane*.

In my own view, most concerns about our contemporary economy are legitimate. And the newfound interest in asking deeper questions about how our economy serves the human person is an encouraging development. But, not all changes are good changes, and our market economy—despite its flaws—has made possible levels of human prosperity never before seen. So while recalibration is welcome, it should be accompanied by a healthy sense of gratitude for the successes of our inherited market economy.

The essays in this compilation merely scratch the surface of this complicated subject, which is sure to inspire vigorous debate for years to come. As it should, especially for Christians—like the authors of these essays. After all, our desire for a more humane economy, rightly understood, is rooted in a deep respect for human dignity, especially the most vulnerable in our society.

Tyler Castle
Director, Initiative on Faith & Public Life

Three Ethical Criteria for Evaluating the Humanity of Economic Systems

Krieg Tidemann and Kristine Principe

Calls for moral reform of market societies may prove vogue in our contemporary age of economic anxiety, but they are far from a recent innovation. Rather, in lamenting the dehumanizing social costs of modern economic exchange, these demands recapitulate critiques from Jean-Jacques Rousseau, Karl Marx, and other historical critics of capitalism. Even if the ideas are themselves not new, the durability and pervasive intellectual purchase of these critiques throughout all socioeconomic strata are too notable to ignore—foremost of all, the intelligentsia and governing classes. The moral legitimacy of the market system in an age with strong skepticism among the elite and demos demands that market apologists either accept components of these critiques or offer a clear refutation of their analytical errors.

Essential to any such response is a compelling establishment of moral criteria by which societies can collectively adjudicate the ethical permissibility of an economic order. Without a clear sense of what standards define an economic system as humane, it is impossible to offer a compelling defense or critique of markets. This essay offers a philosophical foundation for evaluating the strength or weakness of mixed-market economic systems. It proposes ethical criteria that define the moral dimensions necessarily satisfied by a humane economic order. The contribution of these criteria to ethical debates over capitalism facilitates fruitful and productive discourse from a collectively accepted philosophical common ground. Even if a society arrives at different conclusions on the extent to which a market system meets any of these criteria, it represents dialectic progress that debates over the morality of markets have transcended the metrics for evaluation themselves.

This essay offers three primary criteria for evaluating the humanity of mixed-market economies and any alternative economic order that would seek to replace the current institutional regime. First, a humane economic system should respect individuals' freedom and sovereignty to pursue their perceived self-interest in the realm of economic exchange. This criterion draws on Kantian considerations of the morality of markets and requires an economic order to respect each person's self-determined preferences and objectives. Second, a humane economic system ensures that each participant's material welfare is sufficiently satisfied. The second standard relies on a consequentialist logic by focusing its evaluation of an economic system's outcomes in allocating resources among a society. Finally, a humane economic order should promote human flourishing and advance its participants' metaphysical well-being. This final criterion embodies an Aristotelian virtue ethics analysis of economic systems, in terms of any system's institutional capacity to foster virtuous women and men.

The chosen criteria represent a holistic synthesis of existing defenses and critiques of markets made by economists, philosophers, theologians, and other scholars. They also adhere to the three principal traditions of Western normative ethics: deontology, consequentialism, and virtue ethics. The remainder of this essay is broken down into three sections that elaborate on the moral demands of these criteria and evaluate how mixed-market economies perform under each dimension. To the extent existing market institutions may not meet the benchmark established by each standard, possible innovations on the existing market order are posited as remedies. The essay concludes by considering the influential roles consumers and religious institutions, such as the Roman Catholic Church, play in promoting just markets.

Before commencing this discussion, it is useful to highlight an overarching theme of this essay's analysis. Classifying an economic system as humane implies that resource-allocating institutions meet a benchmark ethical standard. In this formulation, there may be several economic orders that would meet the humane standard. This definition of a humane economy is categorically different from identifying the best economic system or a preferred economic order. While idealism may usefully sketch out a tantalizing vision of economic life at the apex of human perfection and achievement, an abstract ideal may not reflect human nature in its complex reality.

Criterion 1: Deontological Ethics and Respecting the Sovereignty of Economic Agents

The first ethical criterion undergirding a humane economic order is the demand that an economic system respect an individual's freedom and autonomy to act in his or her self-interest in the economic domain. This represents an application of Kantian ethics for determining the ethical foundations of markets or other resource-allocating systems. Human freedom is essential for Kantian conceptions of morality on two counts. First, as noted in *Critique of Practical Reason*, human freedom is a prerequisite for morality to hold any significance in evaluating human actions.[1] If an individual is not free to choose, the imposed choice he or she must elect lacks the ethical content necessary for discerning its probity.

Second, drawing on Immanuel Kant's familiarized "formula of humanity" iteration of the categorical imperative in his *Groundwork of the Metaphysics of Morals*, moral actions are presupposed to never treat other human beings as merely means in themselves.[2] This does not imply that human beings cannot proffer or benefit from interpersonal exchange. Interactions with others must either result in a mutually agreeable shared end or represent the outcome of an action consensual to all involved agents. At its heart, Kant's logic reflects the moral demands underlying the Christian anthropological premise of the *Imago Dei* in Genesis 1:27. If man is designed in the image of his creator, all people demand respectful treatment recognizing their inviolable and inherent dignity.

Applying deontological rules to assess the moral dimension of economic systems, the morality of an economic order is premised on its capacity to safeguard human freedom in economic exchange. Human beings, as ends in themselves, should not be unduly constrained or face nonconsensual coercion from economic institutions that unjustly strip agents of both economic sovereignty and the opportunity to live morally in the economic domain. By this standard, modern mixed-market economies appear to reasonably meet the first criterion's standard. Market apologists advocate for the morality of markets by considering how market exchange relies on mutual consent in economic transactions.

This logic simultaneously articulates the theoretical structure of market equilibria in microeconomics and the moral dimensions of the actions it represents. In output markets, where goods and services are transacted daily, neither buyer nor seller are coerced to buy or produce a product. A transaction will be finalized only at mutually agreeable prices to which all parties consent. The logic of consent is also endemic to the theories of Paretian welfare economics.[3] Exchange between individuals occurs insofar as it represents a Paretian improvement: transactions that benefit all parties without harming or manipulating others to achieve gains from exchange.

The economic freedom at the heart of this first criterion is necessarily curtailed by other ethical demands the agent faces. Foremost of these is the duty placed on free actors to not undertake actions that entail an instrumentalization of other agents in an economic order. This limitation on the moral scope of economic freedom is often articulated by critiques focusing on the unjust power imbalances in market systems. For instance, detractors of modern markets may insist that labor is a dehumanized "cog in the machine" of production. To the extent that survival and economic imperatives erode one's understanding of labor contracts as freely chosen and consensual pacts, firms may exploit labor for their own immoral gains. Outside labor markets, one can point to negative externalities and spillovers from otherwise consensual actions, such as pollution and other forms of ecological degradation affecting agents external to transactions. The logic of consensual market exchange also assumes the absence of knowledge asymmetries that denote several markets as ripe for exploitation by informed sellers to gullibly unaware consumers.

These critiques may be well intended, but they are intellectually hollow in presuming mixed-market economies unable to adequately respond to concerns properly understood as market failures. They often adjudicate markets as if exchange took place in the idealized, unregulated marketplaces that are mere abstractions of economic theory. The free-market ideal in truth is a straw man removed from the practical reality of regulated markets facilitating exchange in modern societies. An active role for the state in governing markets has arisen in response to the same critiques that presuppose markets as inflexible to aiding the disempowered worker, unaware buyer, or unwilling external party.

However, drawing on George Stigler's logic of regulatory capture and Ronald Coase's advocacy for private solutions when transaction costs permit, government represents only one possible means for addressing market failures.[4] In particular, socially conscious firms that value the Kantian ends of all parties involved in the production process may offer alternative resolutions. Their solutions to the challenges of information asymmetries and power disparities in input markets may prove preferable to the state-mediated alternative.

A compelling case study of the corrective role firms play in markets is seen through the example of Whole Foods Market. Co-CEO of Whole Foods John Mackey and his coauthor Raj Sisodia, in their book *Conscious Capitalism: Liberating the Heroic Spirit of Business*, challenge firms to educate consumers on ethical business practices, nudging them into being conscious consumers. The authors used the curation of their product line as an example of this process.

> As their trust in us has grown, our customers increasingly look to Whole Foods Market to be their "editors" as we carefully examine and evaluate products we sell. For example, we do not offer tobacco products, foods with artificial ingredients, hydrogenated oils, meat produced with low animal welfare standards, or fish that are farmed beyond sustainability. The decisions were made not just because

> of consumer concerns, but because we study healthy trends of humans, animals, and the environment.[5]

The strategies of corporately conscious firms, such as Whole Foods, exemplify producers' capacity to willfully transcend the purely profit-maximizing archetype of firms as corporate predators.

Investment firms are also observed as reducing the search costs for consumers pursuing socially responsible investing. St. John Paul II, in his 1991 encyclical *Centesimus Annus*, was an early advocate of what is now called an "environmental, social, and governance" investment strategy.[6] The most recent US SIF Foundation *Report on US Sustainable and Impact Investing Trends* found:

> The total US-domiciled assets under management using sustainable investing strategies grew from $12.0 trillion at the start of 2018 to $17.1 trillion at the start of 2020, an increase of 42 percent. . . . The top three specific issues for money managers and their institutional investor clients are climate change/carbon emissions, sustainable natural resources/agriculture and board issues.[7]

All these responses represent the plasticity of market systems to empower the economic freedom of market participants demanded by criterion one while safeguarding against actions that violate the unique sovereignty and value of each human. If a humane system demands additional market interference to ensure human freedom and dignity are respected, no obvious structural impediment is blocking such action from taking place.

Criterion 2: Consequentialism and the Material Welfare of Economic Agents

The second ethical criterion for establishing the humanity of an economic order is the moral imperative for an economic system to sufficiently satisfy each participant's material welfare. This ethical demand, which deigns a system's moral permissibility based on its resource-allocation outcomes, examines markets from a consequentialist perspective. Consequentialism and its best-known lineage of Mills-Benthamite utilitarianism offer moral guidance based on maximizing the collective outcomes of all actors affected by an action.[8]

Similar to the deontological logic of consent in market exchange, consequentialism and its dialectical focus on outcomes is readily embraced in economic theory. This is seen in the construction of the firm and consumer problems as pursuing maximalist outcomes in their respective objectives of maximizing profit or utility. Welfare economics and social choice theory similarly draw heavily on the traditions of consequentialist ethics.[9] A society's social choice over a set of goods and services is determined based on maximizing a social welfare function that assigns equal or unequal weight to the experienced outcome of each member in that society.

The primary challenge presented by the consequentialist approach is the philosophical dissonance between its emphasis on systems that maximize outcomes and the more modest aim of determining when an economic order, such as a mixed-market system, is sufficiently humane. A plausible means of resolving this tension is to defer to the popular Rawlsian social welfare function in social choice theory.[10] This approach, echoing the call of Jesus in Matthew 25:40 to treat the poor no differently than God made man, evaluates societies based on their treatment of their least-fortunate members.

While following a Rawlsian conception of justice may represent a reasonable approach for discerning the consequentialist perspective, which practical socioeconomic metric should determine the threshold of representing a humane economic order remains debatable. For instance, is it sufficient for an economic system to eradicate absolute poverty, or must it ensure a more restrictive measure of absolute income? Further complicating these options, a society may channel the income inequality zeitgeist of contemporary life and deem that absolute treatment of the least fortunate is less important than is the relative gap in outcomes between rich and poor.

Assuming one elects for an absolute measure of economic well-being, the economic system of mixed-market capitalism satisfies or shows promise in fulfilling the materialist demands of criterion two. Looking just in the United States, 0.018 percent of Americans live on net-of-transfers household incomes above the World Bank's $1.90 per day definition of absolute poverty.[11] While the official US poverty level spans between $12,000 and $30,000 and affects approximately 10 to 15 percent of the entire population, this metric is itself a socially constructed benchmark standard of living that fails to account for transfer payments and other forms of non-income support.

An analysis by Bruce Meyer and James Sullivan also noted that using household consumption, rather than pretax and transfer income, offers a more optimistic narrative of how the least-fortunate households have benefited from the current mixed-market system.[12] Their analysis found that consumption-based measures of poverty fell from 30 percent of the US population in 1960 to between 0 and 5 percent in 2007. Notably, such a decline—which Meyer and Sullivan document as primarily occurring post-1980s—is seen during an age of anxiety over globalization and well-documented contractions of manufacturing's prominence in the services-centered American economy.[13] To the extent that global economic integration coincides with a world historic halving of global absolute poverty since 2000 and a quality-adjusted reduction in prices facilitating higher levels of consumption for the poor, the Schumpeterian incentives of free-market systems prove amenable to criterion two's demands either at present or in an expected future.[14]

These assessments are not to demean or trivialize the harsh experience of Americans or others living in poverty or enduring economic insecurity. Rather, this essay aligns with the reserved optimism of John Paul's economic critiques in *Centesimus Annus*. John Paul simultaneously recognized the contribution of market societies in improving the poor's material welfare while acknowledging the need to eradicate the inhuman deprivation that still plagues the least among us.[15]

Nonetheless, even if one views existing market outcomes as not satisfying a necessary standard of material outcomes, a humane system determined to better live out Catholic social teaching's focus on a preferential option to the poor is achievable in market systems. The second fundamental theorem of welfare economics poses one obvious remedy. It stipulates that several resource-allocation equilibria are attainable under alternative transfer payment regimes. Insofar as an existing distribution of resources in a polity fails to meet its socially determined threshold for criterion two, state-facilitated redistribution of resources in a mixed-market system should ameliorate this shortcoming. A convincing argument against this claim must assert why markets cannot support socially demanded, alternative standards of material well-being established by society through a transfer regime.

Redistribution may serve as a potential corrective to the poor's economic condition in mixed-market economies. However, one should understand the state's contribution in promoting material welfare as subordinate to the benefits derived from the invisible hand of markets themselves. If this were not the case, command-and-control systems that imbued past and current technocratic governments with unrivaled power over resource allocation and production would supersede the material returns to citizens across the distribution of income in market-oriented societies. As one of the foremost apologists for markets as a means of economic organization, the Nobel laureate Milton Friedman best articulated the unparalleled capacity of market systems to alleviate material deprivation in a famous 1979 interview with commentator Phil Donahue.

> In the only cases in which the masses have escaped from the kind of grinding poverty you're talking about, the only cases in recorded history are where they have had capitalism and largely free trade. If you want to know where the masses are worst off, it's exactly in the kinds of societies that depart from that. So that the record of history is absolutely crystal clear that there is no alternative way, so far discovered, of improving the lot of the ordinary people that

> can hold a candle to the productive activities that are unleashed by a free enterprise system.[16]

International data from the Heritage Foundation supports Friedman's argument.[17] Not only is there a positive relationship between the level of economic freedom and gross domestic product (GDP) per capita (adjusted for purchasing power parity), but the impact of economic freedom on output is also exponential. Moreover, economic freedom increases both short- (five years) and long-term (25 years) GDP per capita growth rates. Market societies may not unilaterally satisfy criterion two without redistribution, but there is no question which institution manifests the primary vehicle for banishing deprivation from contemporary human existence.

Criterion 3: Virtue Ethics and the Moral Formation of Economic Agents

The final criterion this essay proposes is the assertion that economic systems should promote human flourishing and advance the metaphysical welfare of participating agents. Analyzing the morality of markets or other economic systems in criterion three draws on the premises of virtue ethics. As an ethical framework designed by Aristotle, virtue ethics conceives morality as a conditioned state of enlightened human action and disposition.[18] The idealized human hones his or her character through a temporally sustained struggle to reject the polarized extremes of human passions.

For example, consider the struggle individuals face between the alternatives of epicurean hedonism and miserly penuriousness in their consumption habits. At first glance, one might think the latter is morally preferred to the former, but the avarice of stinginess remains lamentable in its own right. Only through practice can one discern an equipoised middle ground between these extremes represented by the virtue of conscientious and generous frugality. The conscientious cultivation of virtues, like in the previous example, is meaningful for a state of human flourishing known as *eudaimonia*.

Living a life of virtue is required for achieving the moral and teleological potential of each human.

The foremost elaboration of how economic exchange fosters the development of virtuous character is seen in Adam Smith's *Theory of Moral Sentiments*.[19] In his moral treatise, the intellectual father of economics described how market transactions result in a moderation of human passions toward virtue. Regardless of one's perspective in market exchange—either buyer or seller—each participant practices sympathy toward the other's aims. By working from a projection of what an impartial member of society at large would deem an agreeable or reasonable action, humans are conditioned toward a virtuous practice of prudence in market exchange. As one's conception of virtue is likely rudimentary at first, human knowledge and awareness of moral behavior in markets are honed through experience. It is nevertheless useful that the outcome incentives of markets align with promoting sound character. This is particularly true for image-conscious sellers, who face the prospect of not only diminished character but also unprofitable ruin if their actions are socially understood as unsavory or rapacious.

Smith's conception of market exchange emphasized how the market mechanism, in which individuals pursue their own self-interest with full awareness of the moral approbation of others, does not inherently imply immorality. Friedrich Hayek similarly recognized the range of moral distinctions that can characterize market participation, explaining in *The Constitution of Liberty*:

> There is much confusion of the ideal that a person ought to be allowed to pursue his own aims with the belief that, if left free, he will or ought to pursue solely his selfish aims. The freedom to pursue one's own aims is, however, as important for the most altruistic person, in whose scale of values the needs of other people occupy a very high place, as for any egotist.[20]

Jagdish Bhagwati offered a contemporary restatement of Smith's notion that market activity and behavior are primarily influenced by the virtues and mores society and its institutions promote. He acknowledged that while

> markets will influence values . . . more importantly, the values we acquire elsewhere determine how we behave in the marketplace. . . . These values are values that come from our families, communities, schools, churches, and indeed from our religion and literature.[21]

Through the molding of institutions and the opportunities for practicing these virtues in markets, modern capitalism offers an invaluable means for inculcating the character and virtuous disposition criterion three demands.

The Moral Duties of Consumers and the Role of Christian Witness in Markets

Even as markets in Smith's formulation promote virtue and moderate the soul to a conception of the society's moral consensus, the latter observation demands careful consideration. In particular, it is not self-evident that societies are automatically inclined toward promoting a set of virtues that result in human flourishing. One only needs to consider the deleterious consequences of social media institutions in modern life and their associated corrupting virtues of aesthetic egotism as detrimental to character development and human fulfillment. Given the inherent reliance of humanity on its institutions for ensuring that markets function consistently with all three criteria, but particularly the third, it is useful to consider the possible opportunities for religious institutions as a primary inculcator of character to ensure this potential of markets is realized.

Given its global prominence, rich intellectual tradition, and familiarity to the authors, one can consider the specific role the Catholic Church occupies in influencing individuals' economic behavior. The following examples from papal encyclicals and the *Compendium of the Social Doctrine of the Church* illustrate the duty the Catholic Church has historically demanded of economic agents in markets. For example, John Paul in *Centesimus Annus* emphasized that this ethical responsibility extends to both consumption and investment decisions.

> In singling out new needs and new means to meet them, one must be guided by a comprehensive picture of man which respects all the dimensions of his being and which subordinates his material and instinctive dimensions to his interior and spiritual ones.
>
> It is therefore necessary to create life-styles in which the quest for truth, beauty, goodness and communion with others for the sake of common growth are the factors which determine consumer choices, savings and investments. . . . I am referring to the fact that even the decision to invest in one place rather than another, in one productive sector rather than another, is always a moral and cultural choice.[22]

The focus in Catholic social teaching generally stresses firms' moral responsibility to implement socially conscious and value-driven methods of production. However, the following passage from the *Compendium of the Social Doctrine of the Church* illustrates how firms' moral exhortations over economic life extend equally to the consumer.

> Purchasing power must be used in the context of the moral demands of justice and solidarity, and in that of precise social responsibilities. . . . This responsibility gives to consumers the possibility, thanks to the wider circulation of information, of directing the behaviour of producers, through preferences—individual and collective—given to the products of certain companies rather than to those of others, taking into account not only the price and quality of what is being purchased but also the presence of correct working conditions in the company as well as the level of protection of the natural environment in which it operates.[23]

A similar contemporary recognition of the unique role consumers play in fostering moral markets is seen in Pope Francis' call for responsible consumer behavior in *Laudato Si'*.

> A change in lifestyle could bring healthy pressure to bear on those who wield political, economic and social power. This is what consumer movements accomplish by boycotting certain products. They prove successful in changing the way businesses operate, forcing them to consider their environmental footprint and their patterns of production. When social pressure affects their earnings, businesses clearly have to find ways to produce differently. This shows us the great need for a sense of social responsibility on the part of consumers.[24]

The pontiff presciently identified that market reform may end with firm action but found its inspiration and power in the moral imperatives voiced by consumers.

Even if unintended, it is striking how the moral demands Catholicism places on consumers contour to the mechanical design of markets in microeconomics. In particular, the structure of markets not only offers consumers and their preferences the unique privilege of determining what goods and services firms produce but also stipulates the method of production itself. This sovereignty of consumers in directing market exchange offers them the foremost opportunity to shape economic realities into conforming with each of the three criteria articulated in this essay.

Therefore, the humanity of market systems is inherently linked to the moral agency and willingness of consumers to meaningfully support just economic systems. To the extent that just wages, ethical supply chains, and environmentally sustainable production techniques are only fiscally viable with an increase in product prices, ethical consumers must signal their value for these production decisions through their willingness to pay higher prices. In bearing witness to the demand placed on the faithful, the church and other like-minded institutions face a moral imperative to evangelize this Christian duty of advocating and supporting economic behavior conducive to the common good.

Notes

1. Immanuel Kant, *Critique of Practical Reason* (1788; Indianapolis, IN: Hackett Publishing, 2002).

2. Immanuel Kant, *Groundwork for the Metaphysics of Morals* (1785; New Haven, CT: Yale University Press, 2002).

3. Abram Bergson, "Pareto on Social Welfare," *Journal of Economic Literature* 21, no. 1 (1983): 40–46, https://www.jstor.org/stable/2724745?seq=1.

4. George J. Stigler, "The Theory of Economic Regulation," *Bell Journal of Economics and Management Science* 2, no. 1 (1971): 3–21; and Ronald H. Coase, "The Problem of Social Cost," in *Classic Papers in Natural Resource Economics*, ed. Chennat Gopalakrishnan (London: Palgrave Macmillan, 2000).

5. John Mackey and Raj Sisodia, *Conscious Capitalism: Liberating the Heroic Spirit of Business* (Cambridge, MA: Harvard Business Review Press, 2014), 78–79.

6. St. John Paul II, *Centesimus Annus*, Holy See, May 1, 1991, http://www.vatican.va/content/john-paul-ii/en/encyclicals/documents/hf_jp-ii_enc_01051991_centesimus-annus.html.

7. US SIF Foundation, *Report on US Sustainable and Impact Investing Trends*, November 2020, https://www.ussif.org/blog_home.asp?display=155.

8. John Stuart Mill, *On Liberty* (1859; New York: W. W. Norton, 1975); John Stuart Mill, *Utilitarianism* (1861; Abingdon-on-Thames, UK: Routledge, 1895); and Jeremy Bentham, *An Introduction to the Principles of Morals and Legislation* (1780; London: Athlone, 2017).

9. Amaryta K. Sen, *Collective Choice and Social Welfare* (San Francisco: Holden-Day, 1970); and Jerry S. Kelly, *Social Choice Theory* (Berlin, Germany: Springer, 1988).

10. John Rawls, *A Theory of Justice* (1971; Cambridge, MA: Harvard University Press, 2009).

11. World Bank, "Poverty Overview," 2020, https://www.worldbank.org/en/topic/poverty/overview; and Bruce D. Meyer et al., "The Use and Misuse of Income Data and Extreme Poverty in the United States" (working paper, National Bureau of Economic Research, Cambridge, MA, May 2019), https://www.nber.org/papers/w25907.

12. Bruce D. Meyer and James X. Sullivan, "Identifying the Disadvantaged: Official Poverty, Consumption Poverty, and the New Supplemental

Poverty Measure," *Journal of Economic Perspectives* 26, no. 3 (2012): 111–36, https://www.aeaweb.org/articles?id=10.1257/jep.26.3.111.

13. David H. Autor, David Dorn, and Gordon H. Hanson, "The China Syndrome: Local Labor Market Effects of Import Competition in the United States," *American Economic Review* 103, no. 6 (2013): 2121–68, https://www.aeaweb.org/articles?id=10.1257/aer.103.6.2121.

14. United Nations, "Ending Poverty," 2020, https://www.un.org/en/sections/issues-depth/poverty; and Fredrik Erixon, "The Economic Benefits of Globalization for Business and Consumers," European Centre for International Political Economy, January 2018, https://ecipe.org/publications/the-economic-benefits-of-globalization-for-business-and-consumers/.

15. St. John Paul II, *Centesimus Annus*.

16. Milton Friedman and Rose D. Friedman, *Free to Choose: A Personal Statement* (Boston, MA: Houghton Mifflin Harcourt, 1990).

17. Terry Miller, Anthony B. Kim, and James M. Roberts, "Economic Freedom: Gaining Around the World," in *2020 Index of Economic Freedom Report*, Heritage Foundation, 2020, https://www.heritage.org/index/pdf/2020/book/chapter8.pdf.

18. Rosalind Hursthouse, *On Virtue Ethics* (Oxford, UK: Oxford University Press, 1999); and Philippa Foot, "Virtues and Vices," in *Virtues and Vices and Other Essays in Moral Philosophy*, ed. Philippa Foot (Oxford, UK: Oxford University Press, 1978), 1–18.

19. Adam Smith, *The Theory of Moral Sentiments* (1759; London: Penguin, 2010).

20. Friedrich A. Hayek, *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960), 141.

21. Jagdish Bhagwati, "Markets and Morality," *American Economic Review* 101, no. 3 (2011): 62–65.

22. St. John Paul II, *Centesimus Annus*.

23. Pontifical Council for Justice and Peace, *Compendium of the Social Doctrine of the Church*, June 29, 2004, http://www.vatican.va/roman_curia/pontifical_councils/justpeace/documents/rc_pc_justpeace_doc_20060526_compendio-dott-soc_en.html.

24. Pope Francis, *Laudato Si'*, May 24, 2015, http://www.vatican.va/content/francesco/en/encyclicals/documents/papa-francesco_20150524_enciclica-laudato-si.html.

Human Flourishing and the Subjective Dimension of Work

Geoffrey C. Friesen

This essay considers the Christian understanding of the subjective dimension of human work and the implications for economics, finance, and the modern firm. The biblical account of people profoundly captures the fullness of human nature and the role of work and economy in developing the full person. People's reality is both individual and collective, encompassing their *subjective interior* and *objective exterior* dimensions of reality.

Man was not created for the Sabbath but rather the Sabbath for man. Similarly, the Genesis account of human work instructs that man is the proper subject of work; that is, man was not created for work but rather work for man.

This issue is important because economic models affect economic decisions, and these decisions help shape social reality. Current economic and financial models are problematic because they are self-limiting: They close off certain outcomes by assuming they cannot exist. That is, self-limiting models lead to self-limiting realities in firms and financial markets. This notion is sometimes referred to as economic "performativity" or "reflexivity" and is described by Albert Bandura.

> As psychological knowledge is put into practice, the conceptions on which social technologies rest have even greater implications. They can affect which human potentialities will be cultivated and which will be left undeveloped. In this way, theoretical conceptions of human nature can influence what people actually become.[1]

Anthony Giddens argues that a form of reflexivity or mutual reinforcement exists among our models, decision-making, and social environment.[2] For example, Donald MacKenzie and Yuval Millo suggest prices in US options markets conformed more closely to prices estimated from the Black-Scholes model *after* the model gained widespread acceptance, since the model was not simply used to explain option prices but was also used by traders and thus influenced prices.[3] One consequence of reflexivity in financial markets is that self-limiting models will lead to self-limiting realities.[4]

This essay considers this view's financial and economic implications and, in particular, seeks to understand whether the subjective dimension of human work is compatible with existing economic frameworks.

The Objective and Subjective Dimensions of Work—the Biblical Account

St. John Paul II describes the objective nature of work, in which work enables human dominion over the earth, in *Laborem Exercens*: "There thus emerges the meaning of *work in an objective sense,* which finds expression in the various epochs of culture and civilization."[5] The objective dimension is concretely expressed in subduing the earth but at all times remains under God's original ordering. As John Paul states:

> The expression "subdue the earth" has an immense range. It means all the resources that the earth (and indirectly the visible world) contains and which, through the conscious activity of man, can be discovered and used for his ends. And so these words, placed at the beginning of the Bible, *never cease to be relevant*. They embrace equally the past ages of civilization and economy, as also the whole of modern reality and future phases of development, which are perhaps already to some extent beginning to take shape, though for the most part they are still almost unknown to man and hidden from him.[6]

John Paul goes on to describe the biblical foundation for this objective dimension of human work, noting:

> While people sometimes speak of periods of "acceleration" in the economic life and civilization of humanity or of individual nations, linking these periods to the progress of science and technology and especially to discoveries which are decisive for social and economic life, at the same time it can be said that none of these phenomena of "acceleration" exceeds the essential content of what was said in that most ancient of biblical texts. As man, through his work, becomes more and more the master of the earth, and as he confirms his dominion over the visible world, again through his work, he nevertheless remains in every case and at every phase of this process within the Creator's original ordering. And this ordering remains necessarily and indissolubly linked with the fact that man was created, as male and female, "in the image of God". This *process is,* at the same time, *universal:* it embraces all human beings, every generation, every phase of economic and cultural development, and *at the same time* it is a process that takes place *within each human being,* in each conscious human subject. Each and every individual is at the same time embraced by it. Each and every individual, to the proper extent and in an incalculable number of ways, takes part in the giant process whereby man "subdues the earth" through his work.[7]

But each person is also the subject of work, and human dignity and economic value form the basis for determining the full value of human work.

> Man has to subdue the earth and dominate it, because as the "image of God" he is a person, that is to say, a subjective being capable of acting in a planned and rational way, capable of deciding about himself, and with a tendency to self-realization. As *a person, man is therefore the subject of work.* As a person he works, he performs various actions belonging to the work process; independently of their objective content, these actions must all serve to realize his

> humanity, to fulfil the calling to be a person that is his by reason of his very humanity.[8]

The Genesis account of human work instructs that man is the proper subject of work; that is, man was not created for work, but rather, work exists for man. John Paul notes:

> This does not mean that, from the objective point of view, human work cannot and must not be rated and qualified in any way. It only means that *the primary basis of the value of work is man himself*, who is its subject. This leads immediately to a very important conclusion of an ethical nature: however true it may be that man is destined for work and called to it, in the first place work is "for man" and not man "for work". Through this conclusion one rightly comes to recognize the pre-eminence of the subjective meaning of work over the objective one.[9]

This is a challenging teaching that raises the hackles of many economists. And yet, it is fully consistent with modern social science.

The Objective and Subjective Dimensions of Work—the Scientific Account

A key empirical discovery by modern social science is that people progress systematically through stages of growth and development, and meaningful work *arises* or *emerges* as a key source of human growth—and key determinant of human "utility"—only after other needs are met. These stages characterize not only the physical stages of development that occur over the human life span but also intellectual and cognitive stages,[10] stages of psychosocial development,[11] stages of moral development,[12] stages of faith,[13] and stages of human consciousness.[14]

Abraham Maslow was one of the first to highlight the notion of "self-actualization," which he defined as the realization of personal growth, being fully engaged in one's work, and living out one's mission.[15] In short, a desire "to become everything one is capable of becoming" is one of the highest human needs.[16]

In the social science context, human needs are classified as either deficiency or growth needs. A feeling of *lack* motivates human action concerning deficiency needs (e.g., "I am thirsty, so I seek water"). As deficiency needs are satisfied, the motivation for further action *decreases* (e.g., "I am no longer thirsty, so I no longer seek water"). However, with growth needs, a feeling or sense of fulfillment motivates human action. As growth needs are satisfied, the motivation for further action *increases.* Learning, engagement at work, self-actualization, and the pursuit of the transcendent are all growth needs.

One reason that *homo economicus* is not fully human is because "economic man" does not seek self-actualization. Because growth needs are implicitly assumed not to exist, economic and financial models almost never include them. More specifically, following a tradition going back to Max Weber,[17] Irving Fisher,[18] and Lionel Robbins,[19] human growth needs and the subjective dimension of human work are *reduced* into the objective dimension, and the subjective dimension itself is assumed not to matter, so it is not taken into account.

The Objective and Subjective Dimensions of Work—Pareto Optimality

Pareto optimality is a common measure of the efficiency of resource allocations in an economy. A resource allocation is said to be Pareto efficient if it is impossible to make someone better off without making at least one other person worse off. The simple thought experiment presented below illustrates a key idea: The economic logic of trade-offs provides an incomplete foundation for understanding the human role in the modern market economy and inhibits the ability to judge which outcomes are efficient or optimal.

Background Context for the Thought Experiment: DTE Energy. In a *Harvard Business Review* article, Robert E. Quinn and

Anjan V. Thakor describe the financial benefits to a firm by having a transcendent higher purpose and the resulting meaning and engagement among workers. The article details the transformation of DTE Energy, a firm with a CEO who was skeptical of using firm resources to give employees a sense of purpose or meaning. DTE employees had low levels of engagement, and, when the 2008 recession hit, CEO Gerry Anderson "knew that he needed a more committed workforce but did not know how to get one."[20] DTE board member and CEO of United Services Automobile Association (USAA) Joe Robles asked Anderson to visit a USAA call center and observe the level of engagement when people connect to the higher purpose of their work. Every USAA employee undergoes an "immersive four-day cultural orientation" and makes a pledge to provide extraordinary service, a training that is "no small investment, since the company has more than 20,000 employees."[21] (USAA is incorporated as a mutually held insurance company, meaning that the customer owners bear this investment cost.)

At DTE, company leaders decided to try a similar approach, producing a video capturing DTE's contribution to the people and communities it serves and following up by integrating this greater purpose in orientations, training programs, corporate meetings, and events. Employee engagement rose, and firm financial performance improved. Quinn and Thakor ask:

> Why did purpose work so well after other interventions had failed? Anderson had previously tried to shake things up by providing training, altering incentives, and increasing managerial oversight, with disappointing results. It turned out that his approach was to blame—not his people.
>
> That's a hard truth to recognize. If, like many executives, you're applying conventional economic logic, you view your employees as self-interested agents and design your organizational practices and culture accordingly, and that hasn't paid off as you'd hoped.
>
> So you now face a choice: You can double down on that approach, on the assumption that you just need more or stricter controls to achieve the desired impact. Or you can align the organization with

> an authentic higher purpose that intersects with your business interests and helps guide your decisions. If you succeed in doing the latter, your people will try new things, move into deep learning, take risks, and make surprising contributions.
>
> Many executives avoid working on their firms' purpose. Why? Because it defies what they have learned in business school and, perhaps, in subsequent experience: that work is fundamentally contractual, and employees will seek to minimize personal costs and effort.[22]

Quinn and Thakor describe a process of employee engagement that defies the either-or logic of conventional economic models, illustrating that an engaged and inspired workforce is possible. For one executive, he began to realize his firm's purpose was to not only satisfy customers and create shareholder value but also "treat employees like valued human beings"—that is, recognize their inherent *human dignity*.[23] Such a realization opens the possibility for firms to better promote integral human development for employees. Quinn and Thakor state: "Conventional economic logic tends to rely on external motivators. As leaders embrace higher purpose, however, they recognize that learning and development are powerful incentives. Employees actually want to think, learn, and grow."[24]

Economists frequently argue that all this is already embedded in a firm's production possibility frontier, the curved graph representing all the possible production outcomes for a firm. After all, firms operating to maximize their value know they must treat employees and suppliers well and be honest in their dealings with customers.

While persuasive, this argument is incomplete for at least two reasons. First, treating these stakeholders well may be fully consistent with shareholder wealth maximization, but operating with a mindset to maximize shareholder wealth will not always lead to the optimal outcome. This can occur because firms (such as DTE Energy) have misunderstood what shareholder wealth maximization really means, and the self-limiting economic and financial models have likely contributed to this.[25] One reason for this misunderstanding is that firms are relying on models that do not account for the interior or subjective dimension of human work, even though the DTE Energy anecdote suggests they are highly value relevant.[26] A second, related reason is that the models deny, or at least obscure, the reality that the size of the pie is not fixed; value can be created for other stakeholders without coming at the expense of shareholders.

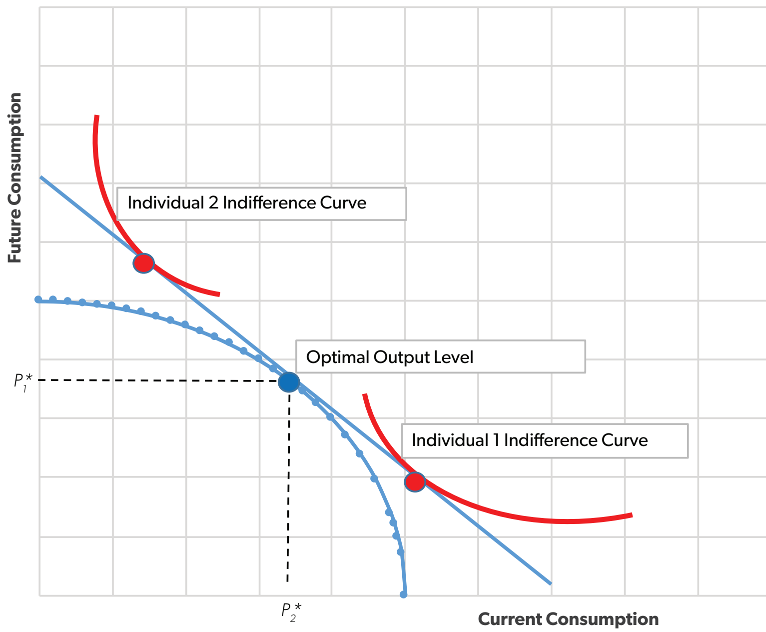
A Simple Thought Experiment. The evidence that firm culture, social capital, and a sense of higher purpose and meaning are good for employees and shareholders leads to a simple thought experiment. Consider a firm that is "value optimized" in the conventional sense, with all decisions made to maximize shareholder wealth (for example, a firm such as DTE Energy in 2008).

In the context of neoclassical economic models, a firm like DTE is assumed to have two key stakeholders: workers and shareholders or owners. A trade-off assumption is made for each stakeholder: Diminishing marginal utility of wealth is assumed for workers, and diminishing marginal returns is assumed for firms and their shareholders. Worker utility comes from two sources that have a hard-wired inverse relationship: leisure and consumption. Diminishing marginal utility for workers means each extra dollar earned provides less marginal utility for the worker. Shareholders of the firm are also assumed to want only two things: consumption today or in the future. Just as the worker faces a trade-off between labor and leisure, there is also an embedded trade-off between current and future consumption for the shareholders.

The firm sits at the intersection between workers and shareholders. A key decision for the firm is how to invest resources for future production, and all possible production levels are represented by the curved production possibility frontier in Figure 1. (The trade-off assumptions about worker and shareholder utility are embedded in this figure.) The firm's optimal production decision balances, or brings into equilibrium, these trade-offs.

One of Irving Fisher's great contributions is a separation principle that provides an elegant solution to a challenging problem: how

Figure 1. The Production Possibility Frontier and Optimal Output



Source: Author.

to invest the firm's resources when *different* shareholders have *different* preferences (e.g., want different levels of current and future consumption). Fisher noted that in a perfect capital market, shareholders can borrow or lend to adjust their individual consumption from point (P_0^*, P_1^*), so that the *utility* of all shareholders is maximized when the *market value* of the firm is maximized.[27] The slope of the capital market line in Figure 1 represents the rate at which shareholders can borrow or lend in the capital markets. The optimal level of production for the firm is represented by the point (P_0^*, P_1^*), where the capital market line is tangent to the firm's production frontier. Fisher's separation principle is the intellectual foundation for Milton Friedman's famous dictum that business' social responsibility is to increase profits.

Returning to the thought experiment, suppose that the firm can spend \$1 billion on a program to facilitate greater employee engagement, a sense of higher purpose, greater job satisfaction, and employee happiness and that it will generate exactly \$1 billion in additional profit and therefore has a net present value of \$0.[28] Where is the point associated with the outcome if the firm makes this investment? It is point (P_0^*, P_1^*).

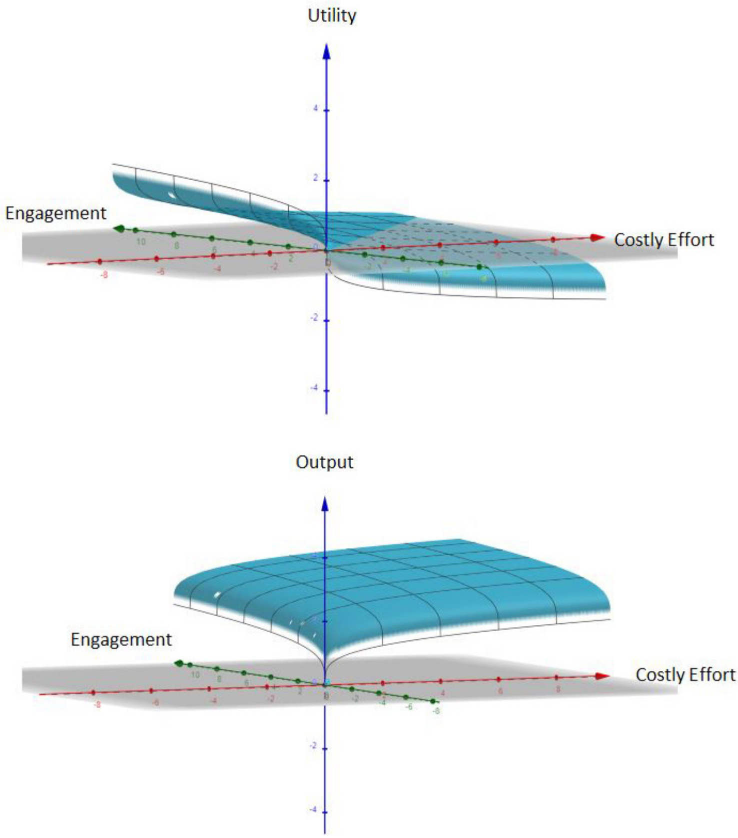
Because the net present value of this project is zero, nothing changes in Figure 1, and rational shareholders in this model must be indifferent between investing and not investing in this zero–net present value project. In fact, the definition of a zero–net present value project is that it adds no value to the firm. But of course, something has changed, even though it does not show up in the figure: *Employees are better off, employee utility is higher, and shareholders are no worse off.* Yet, the point (P_0^*, P_1^*) represents two different outcomes: One is Pareto optimal, and one is not.

Pareto optimality requires only that resources be allocated so it is impossible to reallocate them to make any individual better off without making at least one individual worse off. Pareto optimality itself is not limited by the assumption that human utility is restricted to the objective dimensions of work. Thus, by reducing human utility to wealth and consumption, the economic and financial models are blind to certain key dimensions of reality that relate to human flourishing. These dimensions simply do not show up on the radar.

The Subjective Dimension of Work and the Logic of Human Engagement

Models that ignore the subjective aspects of work, such as meaning or engagement, may falsely identify resource allocations as optimal when they are not. This is because engagement logic is fundamentally different from the trade-off logic of effort. The difference is that under the conventional economic logic of costly effort, a given amount of money is paid to the effort-averse agent, who then provides a certain amount of effort. According to Quinn and Thakor,

Figure 2. The Logic of Costly Effort and Engagement



Note: The right-hand side illustrates the impact of costly effort on worker utility (top figure) and firm output (bottom figure) and corresponds to the existing financial and economic framework. The left-hand side illustrates the impact of engagement on worker utility (top figure) and firm output (bottom figure).
Source: Author.

the logic of engagement goes beyond the standard principal-agent logic in which

> the principal (the employer) and the agent (the employee) form a work contract. The agent is effort-averse. For a certain amount

> of money, he or she will deliver a certain amount of labor, and no more. Since effort is personally costly, the agent underperforms in providing it unless the principal puts contractual incentives . . . in place to counter that tendency.[29]

External effort is always costly to the employee but beneficial to the firm's owners, which embeds an adversarial relationship between the two parties in publicly owned firms. Benefits to one party come at the expense of the other.

In contrast, an "internal" good such as meaning and employee engagement leads to greater satisfaction and higher utility for the employee *and* improves firm performance, which benefits the owners. This is illustrated in Figure 2. The right-hand side captures the "standard" view of human utility, the labor-leisure trade-off (rooted in human deficiency needs), and labor's impact on firm value. The left-hand side illustrates how meaning or engagement at work can increase employee well-being without necessarily coming at the expense of other stakeholders.[30]

Conclusion

Anthropology in the book of Genesis highlights the unchanging dimensions of human experience that are true for all people in all times. Human work takes on both exterior (objective) and interior (subjective) meaning. The biblical account suggests the objective meaning must always remain subordinate to the subjective meaning, since God has ultimately created work for man, not man for work. The first step toward integrating the subjective dimension of human work into economic and financial models is to drop the assumption that it does not exist or that the objective dimension of work can fully subsume it.

At least two generations of business leaders have been trained with models that ignore the subjective dimension of work. When these models are the basis of business decisions, they can lead to a firm's lack of human engagement, because the *idea of meaningful work lacks a legitimate framework* for these business leaders.

Since 1978, Business Roundtable has periodically issued *Principles of Corporate Governance* that includes language on the purpose of a corporation. Each version issued since 1997 states that corporations exist principally to serve their shareholders. October 2019 marked a notable change when the Business Roundtable stated: "It has become clear that this language on corporate purpose does not accurately describe the ways in which we and our fellow CEOs endeavor every day to create value for all our stakeholders, whose long-term interests are inseparable."[31] This statement was signed by the CEOs of 181 firms, many of which are publicly traded US corporations. As of the end of fiscal year 2019, this subset of firms had a combined market capitalization of $13.074 trillion, $6.654 trillion in annual revenue, $586 billion in annual net income, and 13,409,510 employees.[32]

One can ask, "Why the change?" Is the Business Roundtable just saying the same thing? Or does the new framework allow for something else? Is this not essentially the "enlightened shareholder maximization" Michael C. Jensen described?[33] A skeptical response to the Business Roundtable is that CEOs have always known that businesses cannot treat their stakeholders poorly, and maximizing the value of the firm means not mistreating stakeholders. This essay suggests that by affecting the mental models decision makers use, the change in the Business Roundtable statement may have implications beyond enlightened shareholder maximization. It may be consistent with models that implicitly recognize the subjective (interior) *and* objective (exterior) determinants of human flourishing.

Notes

1. Albert Bandura, *Social Foundations of Thought and Action: A Social Cognitive Theory* (Englewood Cliffs, NJ: Prentice Hall, 1986), 1.

2. Anthony Giddens, *Beyond Left and Right: The Future of Radical Politics* (Cambridge, UK: Polity Press, 1994).

3. Donald MacKenzie and Yuval Millo, "Constructing a Market, Performing Theory: The Historical Sociology of a Financial Derivatives Exchange," *American Journal of Sociology* 109, no. 1 (July 2003): 107–45, https://www.journals.uchicago.edu/doi/abs/10.1086/374404.

4. MacKenzie and Millo, "Constructing a Market, Performing Theory"; and Robert J. Shiller, *Narrative Economics: How Stories Go Viral and Drive Major Economic Events* (Princeton, NJ: Princeton University Press, 2019).

5. St. John Paul II, *Laborem Exercens*, Holy See, September 14, 1981, http://www.vatican.va/content/john-paul-ii/en/encyclicals/documents/hf_jp-ii_enc_14091981_laborem-exercens.html.

6. St. John Paul II, *Laborem Exercens*.

7. St. John Paul II, *Laborem Exercens*.

8. St. John Paul II, *Laborem Exercens*.

9. St. John Paul II, *Laborem Exercens*.

10. Jean Piaget, *The Psychology of Intelligence* (Totowa, NJ: Littlefield, Adams, 1972).

11. Erik H. Erikson, *Identity and the Life Cycle* (New York: International Universities Press, 1959); and Erik H. Erikson and Joan M. Erikson, *The Life Cycle Completed* (New York: W. W. Norton, 1997).

12. Lawrence Kohlberg, *The Philosophy of Moral Development*, vol. 1 (San Francisco: Harper & Row, 1981); and Carol Gilligan, *In a Different Voice: Physiological Theory and Women's Development* (Cambridge, MA: Harvard University Press, 1982).

13. James W. Fowler, *Stages of Faith: The Psychology of Human Development and the Quest for Meaning* (New York: HarperCollins, 1981).

14. Jean Gebser, *The Ever-Present Origin*, trans. Noel Barstad and Algis Mickunas (1985; Athens, OH: Ohio University Press, 1991); and Clare W. Graves, "Levels of Human Existence: An Open System Theory of Values," *Journal of Humanistic Psychology* 10, no. 2 (Fall 1970): 131–55.

15. A. H. Maslow, "A Theory of Human Motivation," *Psychological Review* 50, no. 4 (1943): 370–96; and Abraham H. Maslow, *Motivation and Personality* (New York: Harper & Row, 1970).

16. Maslow, *Motivation and Personality*, 64. For other seminal references, see, for example, Clayton P. Alderfer, "An Empirical Test of a New Theory of Human Needs," *Organizational Behavior and Human Performance* 4, no. 2 (May 1969): 142–75; Martin E. P. Seligman and Mihaly Csikszentmihalyi, "Positive Psychology: An Introduction," *American Psychologist* 55, no. 1 (January 2000): 5–14; Martin E. P. Seligman, *Authentic Happiness: Using the New Positive Psychology to Realize Your Potential for Lasting Fulfillment* (New York: Atria Books, 2002); Martin E. P. Seligman, *Flourish: A Visionary New Understanding of Happiness and Well-Being* (New York: Atria Books, 2012); and Ed Diener and Martin E. P. Seligman, "Beyond Money: Toward an Economy of Well-Being," *Psychological Science in the Public Interest* 5, no. 1 (July 2004): 1–31.

17. Max Weber, "'Objectivity' in Social Science," in *Sociological Writings*, ed. Wolf Heydebrand (1904; New York: Continuum, 1994).

18. Irving Fisher, *Theory of Interest, as Determined by Impatience to Spend Income and Opportunity to Invest It* (New York: Macmillan, 1930).

19. Lionel Robbins, *An Essay on the Nature and Significance of Economic Science* (London: Macmillan, 1932).

20. Robert E. Quinn and Anjan V. Thakor, "Creating a Purpose-Driven Organization," *Harvard Business Review* (July–August 2018), https://hbr.org/2018/07/creating-a-purpose-driven-organization.

21. Quinn and Thakor, "Creating a Purpose-Driven Organization."

22. Quinn and Thakor, "Creating a Purpose-Driven Organization."

23. Quinn and Thakor, "Creating a Purpose-Driven Organization."

24. Quinn and Thakor, "Creating a Purpose-Driven Organization."

25. For example, see Jeffrey Pfeffer, "Changing Mental Models: HR's Most Important Task," *Human Resource Management* 44, no. 2 (Summer 2005): 123–28, https://onlinelibrary.wiley.com/doi/abs/10.1002/hrm.20053; and Jeffrey Pfeffer, "Shareholders First? Not So Fast . . . ," *Harvard Business Review* (July–August 2009), https://hbr.org/2009/07/shareholders-first-not-so-fast.

26. For a more comprehensive case on value relevance, see Alex Edmans, *Grow the Pie: How Great Companies Deliver Both Purpose and Profit*

(Cambridge, UK: Cambridge University Press, 2020).

27. Fisher, *Theory of Interest, as Determined by Impatience to Spend Income and Opportunity to Invest It*. Relative to the consumption levels associated with point (P_0^*, P_1^*), Individual 2 can increase future consumption and decrease current consumption by investing some current wealth at the market rate of return, thus increasing utility by moving "up and to the left" along the capital market line. Individual 1 increases utility and current consumption by borrowing against future consumption, which results in a movement "down and to the right" in Figure 1. The introduction of a capital market increases the utility of all shareholders. It also reconciles their different preferences since all shareholders now agree that (P_0^*, P_1^*) is the optimal level of output.

28. Assume, without loss of generality, a 0 percent cost of equity capital, so that the net present value of this project is zero.

29. Quinn and Thakor, "Creating a Purpose-Driven Organization."

30. The implications of this and the integration of these two types of logic are formally developed in Geoffrey Friesen, "Finance, Human Flourishing and the Logic of Stakeholder Engagement" (working paper, University of Nebraska–Lincoln, Lincoln, NE, 2020).

31. Business Roundtable, "Statement on the Purpose of a Corporation," August 19, 2019, https://opportunity.businessroundtable.org/ourcommitment/.

32. Calculated using fiscal year-end data for the subset of publicly traded companies from the Center for Research in Security Prices, http://www.crsp.org/; and Compustat, S&P Global Market Intelligence, https://www.spglobal.com/marketintelligence/en/.

33. Michael C. Jensen, "Value Maximization, Stakeholder Theory, and the Corporate Objective Function," *Business Ethics Quarterly* 12, no. 2 (April 2002): 235–56, https://doi.org/10.2307/3857812.

A Faithful Presence in a Broken Economy

Denise Daniels and Jeffrey Van Duzer

There is a widespread belief that our economy is broken and that the American version of capitalism is not working as it should. Headlines and book titles abound, raising the alarm and identifying the problems of 21st-century capitalism.[1] While a comprehensive answer to these challenges is beyond the scope of this essay, we propose one approach whereby startup enterprises and small businesses in particular can begin to address the economy's significant systemic and structural challenges at a local level.

We outline six critiques of our current economy and provide four perspectives that a Christian business leader in a startup or small venture should engage as an antidote to these challenges. Small businesses can be a "faithful presence" in their communities and, in doing so, create the foundation for a more humane economy.

Six Critiques of the Economy

We believe that most critiques of our current economy can be grouped in one of six categories: income and wealth inequality, the decline in dignified work, business' adverse impact on the environment, business' short-term focus, the financialization of the economy, and the corrupting power of business.

Income and Wealth Inequality. Many argue our economy fosters an unfair disparity in income and wealth. While some level of inequality is typically viewed as acceptable—and indeed necessary for capitalism to function—the gap between the haves and have-nots is widening so much and so fast that many fear we have two economies at play: one for the superrich and one for everyone else. According to sociologist Matthew Desmond, the richest 1 percent in the US owns 40 percent of the country's wealth, and among countries belonging to the Organisation for Economic Co-operation and Development, the US has the highest rate of poverty among working-age adults.[2]

These high levels of income inequality accompany a decline in social mobility. If a child born into a lower-income family could become a high earner, greater levels of income inequality might be acceptable. But, Horatio Alger notwithstanding, absolute income mobility has declined in the US over the past 80 years. A child born in 1940 had a 90 percent chance of outearning his or her parents, whereas a child born in 1980 had only a 50 percent chance of earning more than his or her parents did. And this decline is likely to continue.[3] If you are born into a poor family, there is a high likelihood you will die in a poor family.

A Decline in Dignified Work. As creatures made in the image of a creating God, humans are designed, at least in part, for work. However, not all work confers dignity commensurate with being God's image bearers. Pope Francis said, "Work is fundamental to the dignity of the person. Work, to use an image, 'anoints' with dignity, fills us with dignity, makes us similar to God who has worked and still works, who always acts."[4]

But many argue that our economy is serving up less and less dignified work. While there are competing definitions of this concept (and the related concept advanced by the International Labour Organization of "decent work"), the critiques typically focus on work with inadequate pay or excessive and unpredictable time demands and the dehumanizing character of some work.

Adverse Impact on the Environment. Others contend the economy offers firms financial rewards for externalizing costs. Firms therefore inflict substantial and unsustainable harm on the natural environment—and by extension on all who depend on a healthy environment to sustain their lives. This is no small problem. Commissioned by the Economics of Ecosystem and Biodiversity, Trucost published a research report estimating that business manufacturing—primarily due to greenhouse gas emissions, land and water use, and pollution—creates environmental externalities of $7.3 trillion each year.[5] Additionally, losses to ecosystem services due to changes in land use range from $4.3 to $20.2 trillion per year.[6]

Business' Short-Term Focus. Focusing on short-term profits at the expense of long-term investments is another frequent critique. It can help explain environmental damage, but it also explains leveraged buyouts and junk bonds. It can explain the recent phenomenon of corporations using excess funds to buy back shares rather than invest further in their communities. And it explains many corporate leaders' reluctance to assume responsibility for the health of the communities in which they operate and their corresponding willingness to "pick up and leave" when better economic opportunities are available elsewhere, regardless of the impact on the community they leave.

The Financialization of the Economy. Many have raised concerns about the growing "financialization" of our economy. Put simply, "It boils down to the financial sector—such as banks, credit card businesses, and insurance companies—becoming an increasingly larger part of the overall economy."[7]

This shifting emphasis has two problems. First, since the financial sector produces no consumable products, such as food, clothing, or medicine, it "transforms productive economic activities to the business of a casino, using real resources but producing no tangible output."[8]

Second, through the creation of various investment vehicles, ownership is increasingly distant from actual production. Masked by layers of opaque ownership through managed funds, private equity, securitizations, and the like, individuals know less and less about what the companies they own are doing or even where they are doing it. This makes it easier to pay attention to a single measure amid the complexity (i.e., profitability) at the expense of all other values and stakeholders.

The Corrupting Power of Business. Finally, there is substantial evidence that business plays an outsized role in shaping and directing government. Businesses were never expected to function effectively in a vacuum. They were expected to compete and generate returns in a bounded environment where values poorly captured by the marketplace would be protected and preserved by laws and regulations enacted by governments. These rules would reduce corporate profits but would serve other interests that likewise needed protecting.

But strong legal constraints are difficult to secure in light of business' political power. When business can treat government as just another arena in which to invest and compete, it effectively removes the constraints and actually enlists government power in service of business ends. Some have argued that the fox is not only in the henhouse but running the henhouse and specifying how it should be constructed to allow foxes easier access.[9]

A Faithful Presence Perspective

We recognize the solution to these challenges cannot come from any one sector of the economy. Our economy functions across a landscape of businesses, governments, nonprofit organizations, social enterprises, unions, civic institutions, and other voluntary associations. Fixing one dimension of this ecosystem without addressing the others is unlikely to yield the results we are looking for.[10]

But to insist on the need for an ecosystem solution is not to denigrate the need for each "species" to do its part. In the remainder of this essay, we focus on one such species, one slice of the economy. We focus on startups and other small businesses and address how Christians who operate in this niche can contribute to developing a more humane economy, an economy that redresses the shortcomings identified above.

There is reason to think that startups and small businesses should have a significant role in cultivating a humane economy. According to the US Small Business Administration, small businesses create two-thirds of net new jobs and account for almost half of US economic activity.[11] Additionally, the leaders in such enterprises often have more flexibility and autonomy to create changes in their businesses and surrounding communities than do those in the managerial ranks of large corporations.

A startup or small business venture is not likely to change existing economic structures by itself. However, it is likely to affect its employees, benefit its customers and clients, and positively influence the community in which it operates. Such a business may function as a "faithful presence," demonstrating in a small and focused way what God's intentions for the larger economy might be.

James Davison Hunter describes faithful presence as using the resources at your disposal, including those in the marketplace, for the good of those around you.

> The practice of faithful presence . . . generates relationships and institutions that are fundamentally covenantal in character, the ends of which are the fostering of meaning, purpose, truth, beauty, belonging, and fairness—not just for Christians but for everyone.[12]

He argues that such a paradigm for engaging with the world is both more in line with traditional Christian practice and more likely to be deeply transformational than more overt (and often political) attempts to change society.

This model of faithful presence may provide a way forward in changing our broken economic system. Just as Christians might engage in faithful presence in their personal lives, the business of a Christian entrepreneur or small-venture practitioner could function as a presence faithful to the call of God in its own sphere of influence.

We suggest that for a small or startup business to embody a faithful presence, those in charge of the enterprise must take on a set of faithful perspectives. We commend four such perspectives, which, if adopted, could orient businesses toward a faithful expression of God's perspectives on business.

God's Purpose for Business. First, to bear faithful witness, businesses operated by Christians must keep a clear focus on God's purposes for their endeavors. But how should this purpose be defined?

One way might be to draw on the notion of "calling" as applied to an individual. This is a frequent subject of Christian discipleship, particularly in times of transition. For example, as college students graduate and head into the job market, they are often reminded that God has a purpose for their lives. They are challenged to listen—to find their vocation, their calling.

Much has been written on calling, and we cannot cover the concept in depth. It found deep expression in Puritan theology and has been popularized by many books since then.[13] While using slightly different nomenclature, these various sources affirm that Christians receive a general call applicable to all Christians (e.g., to live as a child of God and to live in God's salvation and redemption) and a particular call unique to each individual. We argue there is likewise a general call and a particular call for each business.

The General Calling of a Business. In identifying the general call for business, we find ourselves in the first chapters of Genesis. Here we find that God creates Adam and Eve in God's image, and we learn God is a worker who loves variety, creativity, and order. We see that God is a relational being. God specifically calls human beings to be fruitful, multiply, fill and subdue the earth, and rule over and protect creation.

This call to exercise dominion—reflecting God's character in activities that increase order and create flourishing in the world—is known as the cultural mandate, and it has formed the foundation for many endeavors of culture building around the world. This mandate was given to human beings as a community and intended to find expression across all dimensions of their lives. Thus, we should expect to find the cultural mandate applicable to not only the work of individuals but also the activities of various institutions or spheres of modern life.

For example, in the context of the family, the call to be fruitful and multiply includes procreation and the growth and development of children. In education, it calls for an increase in knowledge and cultivation of wisdom that allows society to develop and grow. Fruitfulness for governments should not be considered in terms of multiplying the size or reach of government, but rather in terms of advancing justice and growing the opportunities for flourishing.

But what about business? How does business give expression to the fulfillment of the cultural mandate? How does business further the call to be fruitful, multiply, exercise dominion over, and care for the world? We believe this can be answered, at least partly, by identifying two first-order general purposes that are true for every business. These reflect the general calling we believe Christians in any business should pursue.

The institution of business is how humanity can be "fruitful and multiply" in an economic sense. In fact, business is the only institution that creates new economic value. Only business can add two and two and get five. All other institutions depend on and draw from the material wealth that business creates. Government depends on taxes. Academies depend on tuition. Churches depend on tithes. Business generates this wealth through its operations. Therefore, we identify the following as a first-order goal of all businesses: *to create goods and services that enable a community to flourish*.

The Genesis passage also highlights the central feature of our identity as human beings: We are made in the image of God. As such, we were designed, at least in part, to work for and alongside God and, as God does in Genesis, engage in creative and meaningful work. Of course, many institutions provide opportunities for creative expression, but business is particularly well-suited to nourish this aspect of work. We propose, therefore, the second aspect of business' general calling is *to provide opportunities for individuals to express aspects of their God-given identities in creative and meaningful work.*

These two commitments comprise God's general calling—the goal or purpose—of any business.[14] A business should provide goods and services that will enable its community to flourish and opportunities for its employees to engage in creative and meaningful work.

The Particular Calling of a Business. Returning to the analogy of individuals finding their vocation, correctly identifying the general calling does not end the inquiry. Within the broad parameters of the general call, individuals are then encouraged to identify their particular callings or missions. According to the vocation literature, their discernment is to be guided by three things: their gifts and opportunities, their interests and passion, and the world's needs. Their particular calling is at the intersection of these three aspects of their work. As Fredrick Buechner famously put it, "The place God calls you to is the place where your deep gladness and the world's deep hunger meet."[15] Of course, this will be different for each of us.

How might we translate this for a business? As a business decides what products and services to produce, what markets to pursue, where to locate, how much capital to raise, and what financing to accept, it typically seeks direction by asking questions such as which options will maximize return on investment, which options will get the company to break even fastest, and which option will get the business to market quickest. Given the life stage of many businesses (particularly startups), these may be essential questions to ask and answer.

But these are not likely to lead to a clear sense of calling. These are tactical questions, not purpose questions. Rather, we believe businesses should begin by asking: Given the assets under our control (gifts) and our organization's core competencies (passion), how can we best deploy our resources to meet the world's deep hunger (need)? Carefully considering some of the world's bigger needs will often lead to exploring certain otherwise-overlooked possibilities.

Employees as God's Image Bearers. Scripture tells us that human beings were made in the image of God. What an extraordinary conferral of dignity and worth! How would it look to see employees in this light?

For one, God's image bearers deserve the dignity of a fair wage. Some argue that, at a minimum, dignified work must yield a livable wage. If a job uses all of a worker's productive capacity, it must pay the worker enough to meet his or her family's basic needs. A livable wage typically incorporates the cost of a family's likely minimum food, childcare, health insurance, housing, transportation, and other basic needs. To pay less than this threatens the worker's self-sufficiency and renders the work undignified.

Unfortunately, in our economy, the legally mandated minimum wage is almost always less than a livable wage. While states and municipalities have sometimes set higher rates, at the federal level, the minimum wage has remained set at $7.25 per hour (unadjusted for cost of living increases) since 2009. And this falls well short of a livable wage. "A single-mother with two children earning the federal minimum wage of $7.25 per hour needs to work 138 hours per week, nearly the equivalent of working 24 hours per day for six days, to earn a living wage."[16] Fair and sustainable pay is one aspect of respecting the dignity of image-bearing employees.

Good work also respects an employee's work-life balance. Work that requires workers to be constantly on call or to work in changing shifts that are announced with minimal notice is similarly lacking in dignity because it interferes with the worker's ability to plan for and engage in spiritual, communal, and family life outside work. As Pope Emeritus Benedict XVI wrote,

> What is meant by the word "decent" in regard to work? It means work that expresses the essential dignity of every man and woman in the context of their particular society . . . [including] work that

> leaves enough room for rediscovering one's roots at a personal, familial and spiritual level.[17]

And of course, the very character of work can render the work unfit for God's image bearers. Obvious examples include those working in the sex trafficking industry or for drug cartels. But less obvious cases abound. As noted above, all businesses are called to provide employees with opportunities to engage in *meaningful* and *creative* work. As St. John Paul II said,

> When man works, using all the means of production . . . he wishes to be able to take part in the very work process as a sharer in responsibility and creativity at the workbench to which he applies himself.[18]

While work inevitably includes some routine drudgery, it is a rare job that with concerted effort could not be tweaked to provide a greater sense of meaning and opportunities for more creativity.

Government as a Partner. Business and government are often cast as adversaries. From the government's standpoint, without extensive oversight and regulation, businesses will collude to raise prices, externalize costs, produce dangerous products, mislead consumers, damage the environment, stifle union activities, engage in "creative accounting" to avoid taxes, and cheat investors (and so on), all in service of a seemingly insatiable desire to increase their profits.

Businesses, in turn, see government as regularly intervening in clumsy ways that distort markets, discourage forming new businesses, and limit the social good that a more unfettered economy would deliver. Business regulations are often poorly drawn, but even the best-written regulations are inherently over- or under-inclusive. Even a perfectly drawn regulation often brings burdensome reporting requirements that add unnecessary costs to the expense side of the business ledger.[19]

In short, government often sees businesses as dangerous—always trying to get away with something—and businesses often see government as intrusive, expensive, and not adding value. It is not surprising that business-government cooperation is often in short supply.

From God's perspective, however, both institutions have been ordained to facilitate humanity's work in fulfilling the cultural mandate. Each has a role to play, and neither can be fruitful, exercise dominion, and protect creation without the other. Rather than view each other through the lens of suspicion and competition, it would be closer to God's vision if each viewed the other as a partner in the broader goal of promoting human flourishing.

For Christians in businesses, this change in attitude would check what for many are reflexive instincts to oppose all new regulations. Some regulations may be desirable, especially if they would impose on all businesses higher standards that Christians might feel God is calling them to observe with or without the regulation. For example, if Christian managers believed God was calling them to pay their employees a living wage, they would be at a competitive disadvantage if other businesses did not share their compunction. A higher minimum wage could help level the playing field.

Christians in business should also seek to assist government by ensuring it has access to the needed information to govern wisely. And businesses should take care not to "invade" the realm of government through excessive lobbying and high levels of political contributions in a manner that leads the relevant governing body to enact regulations that seek the good of the business at the expense of the common good.[20] At the same time, business can and should appropriately remind government of the costs of complying with regulations and encourage policymakers to include the expense of compliance in their cost-benefit analyses as they consider new legislation.

Grounded in Local Community. The final faithful perspective of the Christian engaged in small enterprise recognizes the local community as the soil from which the business grows and a constituency that the business should be committed to serving. Small businesses are perhaps more able than their national and multinational counterparts to recognize and know their neighbors—those who contribute to the success of their enterprise, including suppliers, employees, and customers. Knowing others and being known can encourage investing in and assuming responsibility for the health of the community.[21]

A neighborly approach to business is consistent with the ethic that Jesus articulated as the second greatest commandment—to love one's neighbor as one's self.[22] It provides a particular expression of the biblical image of the fruitful tree planted by streams of water.[23] This approach postures the business as an "owner" with equity in the community as opposed to a "renter" who sticks around only so long as cheaper rent is not available elsewhere. Such an approach hedges against a short-term focus on profit and connects the business with multiple stakeholders in the community. Ownership is not ignored in such a context, but an owner's goal of increasing profits does not become business' singular goal.

Conclusion

These four faithful perspectives may feel out of reach to the entrepreneur or business owner who is simply trying to make ends meet. Effectively managing the various aspects of the business—staffing, developing a supply chain, cultivating customers, managing cash flow, and so on—could occlude a higher-level perspective on the role of one's business in the community and larger economy. But ignoring these perspectives amid the persistent and ongoing challenges of running a business would be a mistake. It is in the daily and often mundane decisions that God's kingdom breaks into our world. It is in these practices that Christians in business not only influence the economy for good but also shape their own characters.

Hunter wrote about the value of faithful presence for the individual Christian. His words could easily be adapted for the practice of business as well.

> The call of faithful presence gives priority to what is right in front of us—the community, the neighborhood, and the city, and the

> people of which these are constituted. . . . It is here, through the joys, sufferings, hopes, disappointments, concerns, desires, and worries of the people with whom we are in long-term and close relations . . . where we learn forgiveness and humility, practice kindness, hospitality, and charity, grow in patience and wisdom, and become clothed in compassion, gentleness, and joy. This is the crucible within which Christian holiness is forged. This is the context in which shalom is enacted.[24]

No one segment of the economy can heal all that is broken on its own. The "fix" requires an ecosystem approach, and business, let alone the subset of businesses represented by startups and small enterprises, cannot effect all the necessary changes. But Christians operating in small businesses can contribute to the needed healing by serving as a faithful presence, reflecting in small ways glimpses of what God intends for the economy as a whole. In this way, business can be "an expression of a desire to honor the creator of all goodness, beauty, and truth, a manifestation of our loving obedience to God, and fulfillment of God's command to love our neighbor."[25]

The four faithful perspectives identified above respond to the six critiques of our economy noted at the outset. By focusing on God's purpose for business, the small entrepreneur starts to address the prevalent short-term and myopic focus on profits. Focusing on purpose also contributes to the dignity of workers by engaging them in meaningful work. Similarly, focusing on employees as bearing the image of God helps address questions of inequality by paying a sustainable wage. It also speaks directly to issues of dignity by respecting employees' work-life balance and providing opportunities to engage in creative work.

Seeing government as a partner in advancing God's kingdom will help responses to the concerns of environmental degradation and the outsized influence of business on government (which at times crosses over into outright corruption). And sinking roots in the local community helps address the growing disconnect between owners and the localities where their businesses operate.

In short (and paraphrasing Hunter), through the practice of faithful presence, it is possible, just possible, that the Christian business owner will help make the world a little bit better and the economy a little bit more humane.[26]

Notes

1. For example, see David Dayen, "How America Broke Its Economy," *New Republic*, May 8, 2018, https://newrepublic.com/article/148329/america-broke-economy; Katrina Vanden Heuvel, "Capitalism Is Broken—It's Time for Something New," *Washington Post*, December 10, 2019, https://www.washingtonpost.com/opinions/2019/12/10/capitalism-is-broken-its-time-something-new/; Martin Whittaker, "The American Public Agrees That Capitalism Is Broken—and on How to Fix It," *Fast Company,* October 24, 2019, https://www.fastcompany.com/90421667/the-american-public-agrees-that-capitalism-is-broken-and-on-how-to-fix-it; Patricia Cohen, "Straggling in a Good Economy, and Now Struggling in a Crisis," *New York Times*, April 16, 2020, https://www.nytimes.com/2020/04/16/business/economy/coronavirus-economy.html; Richard Reeves, "Yes, Capitalism Is Broken. To Recover, Liberals Must Eat Humble Pie," *Guardian,* September 25, 2019, https://www.theguardian.com/commentisfree/2019/sep/25/broken-capitalism-liberals-economy-politics; Dennis J. Snower, "Don't Save the Economy. Change the Economy.," *Politico,* May 19, 2020, https://www.politico.eu/article/dont-save-the-economy-change-the-economy-coronavirus-covid19/; Josh Bivens, *Failure by Design: The Story Behind America's Broken Economy* (Ithaca, NY: ILR Press, 2011); Anneken Tappe, "Capitalism Isn't Working Anymore. Here's How the Pandemic Could Change It Forever," CNN Business, September 21, 2020, https://www.cnn.com/2020/09/20/economy/how-covid-changed-capitalism/; and Delia Gallagher and Alexis Benveniste, "Pope Francis Says Capitalism Has Failed in the Pandemic," CNN Business, October 4, 2020, https://www.cnn.com/2020/10/04/business/pope-francis-market-capitalism/index.html.

2. Matthew Desmond, "In Order to Understand the Brutality of American Capitalism, You Have to Start on the Plantation.," *New York Times Magazine*, August 14, 2019, https://www.nytimes.com/interactive/2019/08/14/magazine/slavery-capitalism.html.

3. Raj Chetty, "The Fading American Dream: Trends in Absolute Income Mobility Since 1940" (working paper, National Bureau of Economic Research, Cambridge, MA, 2016), http://www.nber.org/papers/w22910.

4. John A. Coleman, "Pope Francis on the Dignity of Labor," *America: The Jesuit Review*, November 20, 2013, https://www.americamagazine.org/faith/2013/11/20/pope-francis-dignity-labor.

5. Trucost, *Natural Capital at Risk: The Top 100 Externalities of Business*, April 15, 2013, https://www.trucost.com/publication/natural-capital-risk-top-100-externalities-business/.

6. Robert Costanza et al., "Changes in the Global Value of Ecosystem Services," *Global Environmental Change* 26 (May 2014): 152–58, https://www.sciencedirect.com/science/article/abs/pii/S0959378014000685.

7. Hossein Askari, "The Financialization of the US Economy Should Terrify All Americans," Globe Post, December 11, 2019, https://theglobepost.com/2019/12/11/financialization-us-economy/.

8. Askari, "The Financialization of the US Economy Should Terrify All Americans."

9. Robert B. Reich, *The System: Who Rigged It, How We Fix It* (New York: Knopf, 2020).

10. This is one reason we are somewhat skeptical about the efficacy of the Business Roundtable's pronouncement last year. While we certainly applaud the public commitment to manage businesses for the sake of many stakeholders and the corresponding rejection of a myopic focus solely on shareholder returns, by itself we do not believe this will address the critiques listed above. (And sadly, early returns suggest the bold declaration has not translated into significant changed behavior.)

11. Data are pre-COVID-19. US Small Business Administration, Office of Advocacy, "Small Businesses Generate 44 Percent of U.S. Economic Activity," press release, January 30, 2019, https://advocacy.sba.gov/2019/01/30/small-businesses-generate-44-percent-of-u-s-economic-activity/.

12. James Davison Hunter, *To Change the World: The Irony, Tragedy, and Possibility of Christianity in the Late Modern World* (Oxford, UK: Oxford University Press, 2010), 263.

13. We commend two in particular: Os Guinness, *The Call: Finding and Fulfilling the Central Purpose of Your Life* (Nashville, TN: Thomas Nelson, 1997); and Doug Koskela, *Calling and Clarity: Discovering What God Wants for Your Life* (Grand Rapids, MI: Eerdmans, 2015).

14. A quick word about profit as a purpose. While perhaps acknowledging these lofty goals, most businesspeople—and particularly those in

startups and small businesses—would likely point out that day-to-day they must focus intently on revenue generation, cash flow, and profit. Is profit an appropriate focus of a business? Of course: "no market, no mission." Without profit (at least eventually), there will be no business to make community-flourishing goods or provide employees with opportunities to engage in meaningful and creative work. So, of course, profit is an appropriate focus for a business manager's work. But it is just not the ultimate end of the business. We appreciate the distinction once made by Bill Pollard as CEO of ServiceMaster. He identified the four objectives for his business. The first two were to "honor God in all we do" and "to help people develop." The last two were "to pursue excellence" and "to grow profitably." All four were identified as goals or objectives, but he characterized the last two as "means goals." See C. William Pollard, *The Soul of the Firm* (Grand Rapids, MI: Harper Business and Zondervan Publishing House, 1996). That is, they were goals worthy of pursuing because they served the first two goals—the so-called "end goals." Pursuing excellence as an end in of itself would not be particularly meaningful. It was valued because the pursuit of excellence allowed for the honoring of God and the development of people. The same was true of profit. It was meaningful as a means of facilitating the end goals. For these reasons, we reject the Milton Friedman school of thought—that the sole purpose of a business is to maximize profits for its shareholders.

15. Frederick Buechner, *Wishful Thinking: A Seeker's ABC* (San Francisco: Harper One, 1993).

16. Carey Ann Nadeau, "New Living Wage Data for Now Available on the Tool," Massachusetts Institute of Technology, Living Wage Calculators, https://livingwage.mit.edu/articles/61-new-living-wage-data-for-now-available-on-the-tool.

17. Pope Emeritus Benedict XVI, *Caritas in Veritate*, Holy See, June 29, 2009, http://www.vatican.va/content/benedict-xvi/en/encyclicals/documents/hf_ben-xvi_enc_20090629_caritas-in-veritate.html.

18. St. John Paul II, *Laborem Exercens* (*On Human Work*), Papal Encyclical, September 14, 1981, http://www.vatican.va/content/john-paul-ii/en/encyclicals/documents/hf_jp-ii_enc_14091981_laborem-exercens.html.

19. The Bradley Foundation's Small Business Regulation Study in 2016 found government regulation costs the economy nearly $2 trillion

annually and costs to smaller businesses are nearly 20 percent higher than the average for all firms due to the disproportionate reporting burden relative to size. US Chamber of Commerce Foundation, *The Regulatory Impact on Small Business: Complex. Cumbersome. Costly.*, March 2017, https://www.uschamberfoundation.org/smallbizregs/assets/files/Small_Business_Regulation_Study.pdf.

20. As Robert B. Reich explains, “According to a study published in 2014 by Princeton professor Martin Gilens and Northwestern professor Benjamin Page, the preferences of the typical American have no influence at all on legislation emerging from Congress. . . . According to Gilens and Page, lawmakers mainly listen to the policy demands of big business and wealthy individuals—those with the most lobbying prowess and deepest pockets to bankroll campaigns and promote their views. . . . Large and growing donations to politicians do not stem from the oligarchy’s inherent generosity or its abiding public spiritedness. Corporations do not fork over hundreds of millions of dollars because they love America. These expenditures are investments, and the individuals and corporations that make them expect a good return on them.” Reich, *The System,* 44–45.

21. Describing highly successful companies that consciously rejected opportunities to grow and expand for the sake of becoming “great” at what they did and who they were, Bo Burlingham noted that “all the companies in this book had similarly symbiotic relationships with the communities in which they’d grown up, and the vitality of those connections was part of their mojo. The companies’ owner and employees had a strong sense of who they were, and where they belonged, and how they were making a difference to their neighbors, friends and others they touch.” Bo Burlingham, *Small Giants: Companies That Choose to Be Great Instead of Big* (London: Penguin, 2016), 55–56.

22. Mark 12:31.

23. Psalm 1:3. Additionally, St. Euthymius the Great said, “A tree which is often transplanted does not bear fruit.” Orthodox Church of America, “Venerable Euthymius the Great,” https://www.oca.org/saints/lives/2016/01/20/100238-venerable-euthymius-the-great. St. Anselm said, “Any young tree, if frequently transplanted or often disturbed by being torn up, after having recently been planted in a particular place will never be able to take root, will rapidly wither and bring no fruit to perfection.”

Vultus Christi, "To Set Down Roots of Love (XIX)," https://vultuschristi.org/index.php/2020/02/to-set-down-roots-of-love-xix/.

24. Hunter, *To Change the World*, 253.
25. Hunter, *To Change the World*, 234.
26. See Hunter, *To Change the World*, 286.

Whose Community? Market Economics and the Concept of Solidarity

Paul R. Koch

In 1982, the late Michael Novak, who was a resident scholar in philosophy, religion, and public policy at the American Enterprise Institute at the time, published *The Spirit of Democratic Capitalism*.[1] One major component of this book was the presentation of a framework that became known as the "Novak triangle." In this paradigm, Novak argued that the economic system, which he described as "democratic capitalism," was really three systems in one:

1. An economic system based on voluntary trade and exchange of goods and services between willing parties;

2. A political system based on some form of democracy, in which the people elect their leaders and the government is constrained by the rule of law; and

3. A moral and cultural system that consists of voluntary associations, such as religious organizations and educational institutions, that occupy the space between the state at one end of a social continuum and families and individuals at the other end.

Both the political and moral-cultural systems impose different constraints on the economic system. The political system determines the institutions and policies that will govern the market process—"the rules of the game," if you will. The moral and cultural system imparts the values and virtues that people take into the marketplace, as workers, owners, managers, and investors. In this framework, concepts of community and solidarity dwell in the latter system as manifestations of the various forms of voluntary association.

Novak resisted the contention that democratic capitalism was inherently hostile to communitarian values. While conceding that a market economy might alter traditional forms of social connection, he also maintained that it lends itself to the establishment of new forms of community.

> It is a community of colleagueship, task-oriented, goal-directed, freely entered into and freely left. Its members have much respect for each other, learn much from each other, come to expect truth from each other, and treat one another fairly. Still, they may not have much emotional attachment to each other, spend much time looking into each other's eyes for moral support, or be particularly intimate with one another. They may enjoy comradeship in fighting the same battles, in enduring together the slings of hostile fortune, and in taking up each other's necessities.[2]

To some who argue that market forces harm traditional manifestations of community and social solidarity, Novak's counterexample is somewhat less than relevant, because their implicit assumption is that *local* and *long-standing* connections are inherently preferable to those that might be newer and more geographically distant in nature.

In recent years, David Goodhart has provided an example of this position, particularly in the context of the Brexit debate in the United Kingdom. Goodhart draws a distinction between two different social groups, which he categorizes as "anywheres" and "somewheres." He describes the former category as consisting of persons who "have portable 'achieved' identities, based on educational and career success which makes them generally comfortable and confident with new places and people."[3] By contrast, the latter group is comprised of those who "are more rooted and usually have 'ascribed' identities . . . based on group belonging and particular places, which is why they often find rapid change more unsettling."[4]

The use of the word "rooted" provides a hint of Goodhart's view of which category possesses a more authentic sense of community, as well as his statement that somewheres are "more communitarian by instinct."[5] By contrast, Brian Griffiths, who has described Goodhart's book as "the most perceptive analysis of the difference between those who voted 'Leave' and 'Remain'" in the 2016 Brexit referendum, also cites Goodhart's work in concluding that anywheres "place less emphasis on tradition, family, faith, and nation."[6]

The Brexit referendum is an imperfect representation of the potential trade-off between market processes and conceptions of community, because some critics of the European Union, both inside and outside the United Kingdom, focus on centralized *means*, such as regulation. At the same time, other euroskeptics concentrate on liberalized *ends*, with the single market serving as a prime example. However, it does provide a fascinating case study of the interaction between economic, political, and cultural factors[7] and offers a potential entry point for a discussion of alternative perspectives on the idea of solidarity between persons and the vision of a humane economy.

Does a genuine sense of community *require* that those who participate in those interactions live in physical proximity to one another? Can the "community of colleagueship," of which Novak wrote, generate the same level of solidarity as one based on membership in the same family or nation? John Schneider has addressed these questions by maintaining that moral proximity, in the Christian community, does not have to *necessarily* coincide with geography or biological relationships and that one's vocation may very well play a significant role.

> Moral proximity will often mean different things to different Christians. The general principle is the same, but it will mean one thing to an unmarried teacher, another to a banker with a large family, and quite another to a professional politician, stay-at-home mother,

> truck driver, garbage collector, or lonely artist. Moreover, we may each of us have very special senses of proximity that make little or no sense to anyone else.[8]

What are the potential implications of these alternative visions of community for the design and implementation of economic policy? For decades, American "conservatives" have mostly identified with the perspective known in political economy as "orthodox economic liberalism." This school of thought believes that both individual liberty and economic prosperity are enhanced by a limited degree of government intervention and regulation.[9] This perspective also places a high value, relative to other objectives, on economic efficiency, technological innovation, and international economic integration.[10] To borrow Joseph Schumpeter's famous metaphor for the driving force in a market economy, orthodox economic liberals emphasize the creative side of the "gale of creative destruction." This helps explain the historical preference of "conservatives" for a policy menu that favors relatively low tax rates (especially at the margin), fewer regulations, and open trade among nations.

Orthodox economic liberals have also argued that the best way to assist those who encounter the "destructive" side of a dynamic market economy is to foster an environment of growth and opportunity, which will enable those who have experienced a loss in business or employment to adjust to new possibilities at a lower transitional cost. This particular manifestation of "conservative" thought has maintained that public policies that are designed to protect existing firms and jobs from these kind of changes will be counterproductive in the long run. In the words of Mike Moore, the former director general of the World Trade Organization:

> It is hard to argue the merits of Joseph Schumpeter's principles of Creative Destruction to unemployed fifty-year-old meat workers. But the argument must be made. You can save old jobs for a while at the cost of new jobs, but in the end you finish up with neither the old jobs nor the new ones.[11]

More recently, the cultural component of American "conservatism," as opposed to the economic dimension, has experienced an increase in both visibility and significance. An important element of this development has been a renewed emphasis of the impact of the "destructive" side of market dynamics, especially with their international dimensions, on preexisting forms of community. An ironic aspect of this trend is the extent to which these arguments have mirrored those positions that "structuralist" critics of the entire democratic capitalist system have offered.[12] While cultural conservatives affirm free enterprise, they express clear preferences for local and national commerce (as opposed to global trade), manufacturing and agriculture (as opposed to the financial sector and some service and information-oriented segments of the economy), and small to medium-sized enterprises (as opposed to large corporations).

Aside from a consideration of costs and benefits, would a policy mix that altered the orthodox economic liberal approach, in a way that would be intended to address these concerns, also foster a greater degree of community, and what *kind* of solidarity is most likely to be encouraged? One political tradition that has wrestled with these questions since World War II has been the Christian Democratic Movement across Europe. Norbert Neuhaus and Horst Langes have maintained that this perspective provides a sharp contrast to both the individualist and collectivist understanding of this term. In their view, "Solidarity is a fundamental social principle that springs from the social nature of man. This solidarity likewise *embraces all other peoples and nations in a globalised world*."[13] (Emphasis added.)

Neuhaus and Langes also stress that "every individual is simultaneously a member of a number of different communities" and that "each of these communities expects a corresponding degree of solidarity and contributions, which might however in practice overlap or even mutually exclude one another."[14] This discussion implies that, similar to Schneider's idea of moral proximity, social obligations and communal responsibilities do not *have* to be limited to those that are a function of geographical location.

However, a significant number of the initiatives that have been advocated to benefit *particular* communities such as trade restrictions or industrial policies are rooted in identities that are largely local, regional, or national in nature. Given the negative economic consequences often associated with these initiatives, there is an ongoing search for alternative policies that offer the potential for simultaneous enhancement of *both* markets and communities, without making the judgments, either implicitly or explicitly, that (1) local and national production have a higher moral standing than production located elsewhere does and (2) existing jobs and sectors have a higher moral standing than future jobs and industries do, including those that might not yet exist.

R. Glenn Hubbard has provided some potential options that, while intended to assist those who have been hurt by the disruptions associated with changes in the patterns of trade or technological innovation, may offer "positive externalities" in the spheres of community and social solidarity. Using the metaphor of a wall, he argues that trade protectionism and increased market regulation, while responding "to a broadly shared desire for security and stability," are costly and "unlikely to hold over time," as Mike Moore has asserted.[15] At the same time, Hubbard maintains that defenders of a liberal approach to international economics have implicitly assumed that the advantages of global markets "are easily available to everyone and that what is lost in the process was of no value."[16] Employing the metaphor of a bridge, he offers the following statement as an alternative approach.

> Missing in the debate between these two sets of arguments is another way of dealing with change—not by ignoring its character or imagining that it can be permanently held off, but by adapting to it with strategies that take the costs involved seriously. If walls cannot protect those harmed by the transformation of the modern economy, bridges can connect them to its benefits and help make otherwise impossible transitions.[17]

Hubbard proceeds to offer two different categories of potential "bridge-building" policies, which he groups under the headings *preparation* and *reconnection*. The former "requires support for skill acquisition and enhancement of individuals' working lives,"[18] while the latter "focuses on individuals whose employment prospects and earnings have been significantly diminished or left behind."[19] In the first category, Hubbard refers to an increase in the level of public funding for both community colleges and university-level research and tax credits that will encourage businesses to invest in the "human capital"—skills, talents, abilities, and knowledge—of their existing employees.[20]

In the second group, Hubbard offers various options for expanding or revising the public commitment to the provision of social insurance. These proposals include expanding both the Trade Adjustment Assistance program and the earned income tax credit and establishing of new initiatives in health insurance reform, a form of wage insurance that would be primarily intended for older workers, and assistance to the long-term unemployed, particularly in areas with a significant number of persons in this category.[21]

The last idea represents an example of what Timothy Bartik has described as a "place-based jobs policy." Citing Adam Smith's 18th-century observation that many people are not inclined to be geographically mobile and recent data from the United States that support this conclusion, Bartik concludes, "These staying percentages reflect enhanced life satisfaction that people gain from the familiar people and places of their home area."[22] In our own time, this preference is likely to be reinforced by the difference in housing costs between various regions of the nation and moving costs. Bartik writes that "estimates of the moving subsidy required for the median person to be indifferent to their current location and an otherwise similar location often exceed 100 percent of annual income," with this projection increasing if other family members live close to the person's current location.[23] These factors may contribute to the existence of involuntary unemployment in certain communities, and Bartik argues for policies designed to address these situations.

> Involuntary unemployment makes it likely that benefits from jobs are higher in distressed places. The social benefits from a higher employment rate include both the private benefits to individuals who otherwise would not be employed, and external benefits like lower crime, benefits for family members, and local fiscal benefits.[24]

Debates over the relative merits of these policies and related alternatives are likely to continue for some time, especially if the current decade conforms to the prediction, provided by Deutsche Bank Research, of the "Age of Disorder."[25]

These discussions will likely be influenced by different answers to the question the "expert in the law" asked Jesus in the 10th chapter of the Gospel of Luke: "And who is my neighbor?"[26] Nigel Biggar has concluded that given "our limited emotional, physical, temporal, and material resources," a case can be made for extending a relative degree of priority to the citizens of one's own community or nation; in his words, "The argument from God's agape to Christian cosmopolitanism does not work."[27]

A somewhat different perspective is presented by Paul Rowe, who has observed that the call to serve "all nations" is associated with, to borrow language from the third chapter of the Apostle Paul's Letter to the Galatians, "no longer identifying with national titles such as Jews and Greeks."[28] At the same time, in the context of evangelical Protestant Christianity and drawing on several international examples, Rowe argues that "patriotic and globalist forms of evangelical action are not exclusive perspectives."[29]

This final thought provides a measure of hope in the ongoing search for policies and institutions that will facilitate the search for a humane economy that includes healthy communities—not only domestically but also internationally. In the same way in which economists believe trade and exchange are mutually beneficial, efforts to strengthen social connections at the local or national level do not have to be pursued in a manner that comes at the expense of a global sense of solidarity. "Bridge-building" policies offer the potential for providing transitional support to our fellow citizens who have borne the concentrated costs of economic adjustment while avoiding the counterproductive consequences of “wall-building” policies that also shift some of the burden of those costs to community members who happen to live in other nations.

Notes

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

2. Novak, *The Spirit of Democratic Capitalism*, 137.

3. David Goodhart, *The Road to Somewhere: The Populist Revolt and the Future of Politics* (London: Hurst and Company, 2017), 3.

4. Goodhart, *The Road to Somewhere*.

5. Goodhart, *The Road to Somewhere*, 5. David Goodhart acknowledges that "few of us belong completely to either group—we all have a mix of achieved and ascribed identities—and there is a large minority of Inbetweeners (in the United Kingdom)." Goodhart, *The Road to Somewhere*, 4.

6. Brian Griffiths, "The Political Economy of Brexit," *Faith and Economics* 74 (Fall 2019): 66.

7. These connections have been discussed by Thomas Sampson, who concluded that the outcome of the referendum was not the result of an economic cost-benefit analysis, but was more likely to be a reflection of values and identity and the information that was available to voters. Thomas Sampson, "Brexit: The Economics of International Disintegration," *Journal of Economic Perspectives* 31, no. 4 (Fall 2017): 178.

8. John R. Schneider, *The Good of Affluence: Seeking God in a Culture of Wealth* (Grand Rapids, MI: Eerdmans, 2002), 181.

9. David N. Balaam and Bradford Dillman, *Introduction to International Political Economy*, 5th ed. (Boston, MA: Longman, 2011), 11. Barry Clark has described the most limited version of the role of government, in this framework, as the "night-watchman state." Barry Clark, *The Evolution of Economic Systems: Varieties of Capitalism in the Global Economy* (New York: Oxford University Press, 2016), 24.

10. Clark, *The Evolution of Economic Systems*.

11. Mike Moore, *A World Without Walls: Freedom, Development, Free Trade, and Global Governance* (New York: Cambridge University Press, 2003), 30.

12. David Balaam and Bradford Dillman describe "structuralism" as a perspective in political economy that places a high degree of value on "equity and relative equality." Balaam and Dillman, *Introduction to International Political Economy*.

13. Norbert Neuhaus and Horst Langes, *Values of Christian Democracy: Some Key Concepts* (Brussels, Belgium: Robert Schuman Foundation, 2011), 68.

14. Neuhaus and Langes, *Values of Christian Democracy*, 72.

15. Glenn Hubbard, "The Wall and the Bridge," *National Affairs* 45 (Fall 2020): 3.

16. Hubbard, "The Wall and the Bridge."

17. Hubbard, "The Wall and the Bridge," 4.

18. Hubbard, "The Wall and the Bridge," 12.

19. Hubbard, "The Wall and the Bridge," 14.

20. Hubbard, "The Wall and the Bridge," 12–14.

21. Hubbard, "The Wall and the Bridge," 15–18.

22. Timothy J. Bartik, "Using Place-Based Jobs Policies to Help Distressed Communities," *Journal of Economic Perspectives* 34, no. 3 (Summer 2020): 99–127.

23. Bartik, "Using Place-Based Jobs Policies to Help Distressed Communities," 104–5.

24. Bartik, "Using Place-Based Jobs Policies to Help Distressed Communities," 107.

25. Deutsche Bank Research, "The Age of Disorder—the New Era for Economics, Politics, and Our Way of Life," September 9, 2020, http://www.dbresearch.com/servlet/reweb2.ReWEB?rwnode=RPS_EN-PROD$HIDDEN_GLOBAL_SEARCH&rwsite=RPS_EN-PROD&rwobj=ReDisplay.Start.class&document=PROD0000000000511857.

26. Luke 10:29.

27. Nigel Biggar, *Between Kin and Cosmopolis: An Ethic of the Nation* (Eugene, OR: Cascade Books, 2014), 5.

28. Paul S. Rowe, "The Global—and Globalist—Roots of Evangelical Action," *Review of Faith and International Affairs* 17, no. 3 (2019): 36.

29. Rowe, "The Global—and Globalist—Roots of Evangelical Action," 37.

About the Authors

Denise Daniels is the Hudson T. Harrison Chair of Entrepreneurship at Wheaton College. She earned a PhD in organizational behavior from the University of Washington and was professor of management at Seattle Pacific University for over 20 years. Daniels is the co–principal investigator of a $1.8 million Lilly Endowment research project examining how Christians engage their faith at work.

Geoffrey Friesen is an associate professor of finance at the University of Nebraska–Lincoln. His current research focuses on the role of finance in creating economic value and promoting human flourishing, with an emphasis on how financial models form worldviews and influence financial decisions.

Paul R. Koch is professor of economics at Olivet Nazarene University, where he has taught since 1992. For the past 20 years, he has also been a member of the faculty for the International Business Institute, a summer study-abroad program based at Messiah University.

Kristine Principe is an associate professor of economics and finance at Niagara University, with a PhD in economics from Emory University. She teaches courses in law, economics, and health economics. Her research interests also include pedagogy and analyzing markets from a Catholic perspective.

Krieg Tidemann is an assistant professor of economics and finance at Niagara University. He holds a PhD from Syracuse University. His research focuses on the labor and housing market impacts of public policies targeting low-income households, the moral foundations of markets, and pedagogical innovations for teaching undergraduate economics courses.

Jeffrey Van Duzer is professor emeritus of business law and ethics at Seattle Pacific University (SPU), where he also serves as a senior fellow for the Center for Faithful Business. During his 20 years at SPU, he served first as dean of the School of Business and Economics and then as provost for the university.

About the Initiative on Faith & Public Life

The Initiative on Faith & Public Life, formerly known as Values & Capitalism, is a project of the American Enterprise Institute (AEI), one of the world's leading policy think tanks, based in Washington, DC. Our mission is to provide Christian college students with formational educational and professional opportunities that propel them to lives of faith and leadership in the public square.

We achieve this mission by partnering with a community of students, faculty, scholars, and professionals across the country and by sponsoring conferences, on-campus events, and other intensive programming. We also produce a variety of educational resources, including books, essays, videos, and documentaries.

Reflected in all our programs and resources are AEI's core values: a commitment to democracy and free enterprise, solidarity with those at the periphery of our society, and an appreciation for a robust competition of ideas. In that spirit, we foster rigorous, nonpartisan dialogue about a wide range of relevant topics—in economics, business, society, culture, politics and public policy, and vocation and calling—from a distinctly Christian perspective.

Through all this work, our initiative exists to equip Christians for faithful, informed engagement in contemporary public life. Visit our website to learn more: www.faithandpubliclife.com.