

# JOURNAL OF THE ASSOCIATION OF CHRISTIAN ECONOMISTS

No. 32, September 2003

## ***From the Editor:***

This issue of the ACE Journal contains three papers originally presented at this year's ACE Conference in July 2003. Ferruccio Marzano describes the way in which theories of economics bifurcate into the ethically "open" and the ethically "closed". Jonathan Tan presents a review what economics has to say about altruism and how this might square with a Christian perspective. Andrew Britton presents a discussion of potential points of intersection between economic theory and religious belief. Finally I have included a review of Richard Layard's recent Lionel Robbins Memorial Lectures on happiness.

The Spring 2003 issue of *Faith and Economics* (the journal of our colleagues in ACE North America) contained a number of articles for a symposium on social networks and economic development, as well as a number of book reviews. If you are not currently taking advantage of our offer of providing "bulk discount" on membership of ACE US, then you will find details of our joint subscription arrangement in the recent mailshot from Jonathan Thomas.

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# ETHICALLY OPEN AND CLOSED ECONOMIC THEORIES\*

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## 1. Introduction

In the present paper, with reference to the different theoretical positions in the deployment of modern economic thought, and besides the usual distinction as regards the “analytical approach” that characterises each theory, I suggest making a distinction on the basis of the “value judgements” subscribed to by each author, in particular between *ethically open and closed economic theories* [for details see F. Marzano (1998a), various papers, and (1998b)], which as to practice is between *open and closed economic behaviour*. I shall also argue in favour of the “superiority” of those positions that follow an *open* theoretical (and practical) view and its “closure” through *external* moral assumptions “backing” the theory adopted (or the praxis pursued). Furthermore, I propose that, on this basis, it is possible and useful to group the numerous theories and the manifold human actions on the economic front into two distinct “blocks”: on the one hand, a block of *ethically open* positions such as those concerning the “classical-Keynesian” approach and, on the other, a block of *ethically closed* positions such as those concerning the “neoclassical-monetarist” approach.

In particular, in the paper I will make reference to the “central nucleus” of the *two* blocks of economic theories under consideration, as well as (as we shall see) of *two* classes of ethical or moral options, so that specific conclusions can straightforwardly be drawn from the *comparison* between *different combinations* of each theory taken from the two blocks of theories and each class taken from the two classes of positions as to ethical or moral choices.

The analysis of the principal theoretical positions in the history of modern economic thought, from Adam Smith to the present day, made along the lines of the new “interpretative key” proposed in this paper, will start just with Smith. In Smith’s approach, the principle of *homo oeconomicus* - of which he was the inventor and the mentor – played a key but co-primary role, in the sense that it stood *together* with other principles or postulates or criteria, namely those *value judgements* that were derived from the “principle of benevolence or sympathy”. As to the subsequent great thinkers belonging to the same classical school as Smith, such as Ricardo and Marx, we likewise find the relevant, explicit role played in each approach by *value judgements*, which were basically linked to the “historical and institutional conditions” of their time.

It is with the arrival of the *positivist* approaches and the prevalence of the *marginalist* paradigm that we had, in contrast, the *absolutization* of the *homo oeconomicus* postulate, so that, in the later development of neoclassical thought, economics would be thought of as entirely *separate* from any *ethical or institutional* assumption. Afterwards, the conditioning and determining role of *value judgements* in economics and, more generally, the mutual

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enriching that can accrue to economics from ethics and, vice versa, from economics to (applied) ethics, and also in a wider sense as to the relationship between philosophy and economics, would be resumed and developed in various theories which followed from the crisis of neoclassical economics in the 1930's. On the one hand and with growing strength, in Keynes's theory and the numerous currents of Keynesianism; on the other hand, in other theories that appear unorthodox as compared to mainstream economics, in particular, and with specific interest for Christian economists, in the theory known as "economics for mankind" [see Vito (1954)].

In general, the point is to inquire whether the limitations of the postulate of *homo oeconomicus* are not recognised (as in the case of neoclassical and monetarist theories) or are recognised (as in the case of the classical and Keynesian theories), and so whether the theories which adopt the well-known hypothesis of the optimising behaviour of economic agents can be correctly thought of as "complete" ones (as in the case of neoclassical and monetarist theories) or, in contrast, any economic theory must be made "complete" with the recognition of the essential role played by value judgements (as in the case of the classical and Keynesian theories). More specifically, it is through the distinction between *ethically open and closed economic theories* that the various positions, which have progressively vied for the stage of theoreticians, observers and beneficiaries in the course of time, can be aggregated into two groups and as such analysed in a reasonable and enlightening way. Let me add that the debate taking place today is as heated as ever between *open* and *closed* economic paradigms, even though such terms are not used. Moreover, as I am an economist and not a historian of economic thought I will concentrate on the central aspects (the "pillars"), that is the essential and the most important ones, of the "blocks" of theories under consideration.

## **2. Ethically "Open" and "Closed" Theories**

In general, an *open* theory is characterised as such in every field of thought when, on the basis of the so-called "Goedel proof" (1931) on the incomplete nature of arithmetic, it does not take all its principles or propositions from within the theory, but at least one is considered to be not provable or derivable from within and has to be taken from outside, by favouring one or another *meta-theoretical* position depending on the particular case. Similarly, I maintain that an *open economic theory* is characterised by the fact that not all its assumptions or hypotheses can be justified or explained from within, so that at least one cannot be derived or proved from within and therefore has to be taken from outside, from those which can be called theoretical *meta-economic* positions. On the contrary, it follows that both in general a *closed theory* and in particular a *closed economic theory* are characterised by the fact that they do not accept, so to speak, such limitations and take and justify any and all postulates or hypotheses within the theory itself.

Specifically for economics and the economy, all "closed" theories, such as the neoclassical and the monetarist ones, as well as the economic activities seen from a general "optimising" viewpoint, consider the principle of *homo oeconomicus*, that is a postulate which is internal or intrinsic to the economic domain, as the only one premise for any economic discourse. They consider the principle to be implicitly determined by the very definition of economic behaviour, which (by definition) is addressed to solving rationally the problem of "achieving the maximum result on the basis of certain scarce resources which can

be used for alternative uses” or “to achieve a certain result on the basis of the minimum amount of scarce resources which can be used for alternative uses”. This is just as in Robbins’ (1932, 1935<sup>2</sup>) famous definition of economics as a science that “studies human behaviour as a relation between ends and scarce means which have alternative uses”. On the other hand, all “open theories”, such as classical and Keynesian theories, as well as economic activities seen in this light, accept at least one limitation in the deployment of the economic discourse. As recalled above, “open theories” start with Smith and contain at least one hypothesis taken from outside the economy, in particular (as is well-known) the exogenous determination of a distributive variable, in addition to and together with the postulate of *homo oeconomicus*. Parallel to this, economic activities are indicated as those which people do in order to solve the problems of “production, distribution, circulation and use” of economic goods (products and services), namely goods which are useful for the purpose of satisfying human needs, are scarce, and can be used in various ways, but they may be specifically increased through economic growth.

### 3. Subjective and Objective Ethical Principles

Whether one moves by coherently starting from an “open” economic theory towards its “closure” on the basis of certain moral premises or value judgements emerging from outside the economy, or else by following a “closed” economic theoretical approach and incoherently trying to “reconcile” any approach of this kind with outside value judgements that are considered to be relevant but in conditions of “separation”, the further question is: what kind of ethical principles are “involved” since - as is well-known - we have to distinguish between those that are *objective* or *absolutist* and those that are *subjective* or *relativistic*?

Whereas nowadays the contrast between subjective or relativistic and objective or absolutist morals is a more and more “pressing” one, the question is so complex, as well as being “technically” beyond the proper competence of the author, that is not possible to deal with it appropriately here. It must simply be remembered that, whilst the first positions concern a definitely individual point of view, the second ones follow values and ends that go beyond the individual viewpoint in order to draw on a universal one and therefore valid for everybody [for more details see a good manual on ethical theories, as for example the one by the moral philosopher A. MacIntyre (1967)].

Anyhow, as hinted at above, the point I want to emphasise is that, from the “combination” of two classificatory criteria respectively concerning: 1) the distinction between *closed* and *open* economic theories and 2) the distinction between *subjective* and *objective* ethical positions, there emerge four possible “options”. Recognising that they display distinct combinations between different positions of economic theory and of moral convictions, it can be seen that different scientific positions adhere to one or another of the four, and obviously the same is true for the options of a practical type. Of course, the classification proposed here is one of many possible ways of “combining” one specific ethical choice with one particular economic theory and of denominating each of the four “options” that derive from the different kinds of combinations. In the light of the remarks made above, the conclusions reached can be easily understood.

In this regard, it may be useful to refer here to the Table below, which is borrowed from an earlier work [Marzano (1998a), paper III/I; but see also (1998b)].

**TABLE 1**

**Moral positions**

		<b>Subjective</b>	<b>Objective</b>
Economic Theories	Closed	<i>Atomism</i>	<i>Exclusivism</i>
	Open	<i>Situationism</i>	<i>Universalism</i>

In the first place, it is clear that, when the co-existence of the adherence to a “closed” theory, such as the neoclassical or the monetarist theory, and to an “objective” ethical position is believed to be possible, a sort of conflict, perhaps hidden, must result between “two absolutes”, which emerges from the combination between the fundamental role assigned to the proposition of *homo oeconomicus* and the objectivity of the evaluations and moral norms to which the theorist professes to belong. Hence the result may be referred to as *exclusivism*.

Certainly, the option that derives from the combination of adherence to the “closed” paradigm of economic theory and to “subjective” ethical values is a more coherent one. However, in my opinion, this opens it up to the criticism that it shows the substantial prevalence of the economic “absolute” over the “relative” moral, with a high risk of total “deviation”. Hence the result may be referred to as *atomism*.

As far as the combinations arising from the adherence to an “open” economic theory, whatever its specific form (classic, Keynesian, etc.) is, and to either type of moral positions, exactly because any “open” theoretical paradigm has to be properly “closed”, that is to be integrated with any one of the ethical values, we are faced with options which are both plausible in point of principle. Yet, I feel obliged to propose a particular argumentation that tends to clarify how the option that fits into the intersection between an “open” economic theory and an “objective” ethical position makes significantly more sense.

This is because, as any “open” paradigm of economic theory is characterized by the “non-absolutisation” of any proposition, not even of the postulate of *homo oeconomicus*, and by it being dependent on the outside for its “closure” and “completion”, it is clear that it cannot be considered truly satisfactory to refer to “subjective” moral values for closure and completion, in so far as the relations and propositions of economics are always considered to be relative to and conditioned by the specific context of time and space that marks the real situation.

This is the reason why the “option” appearing at the intersection between an “open” economic theory and “objective” moral values - which can be referred to as *universalism* - must be looked at as a suitable option to provide both a historically and geo-politically

plausible interpretation of reality and a vision based on value judgements corresponding to the permanent needs of man [indeed, Pope Paul VI (1967) expressed that elegantly by writing "of every man and the whole man"]. On the contrary, in the other case - that of the "option" appearing at the intersection between an "open" economic theory and "subjective" moral values, - referred to as *situationism*, one would find oneself confronted with two "relatives".

Moreover, consider that, in both the case of the *exclusivism* combination and the atomism combination, moral values and, hence, the "option" chosen is very often implicitly assumed. That is to say, it is believed possible to keep a foot in both camps, without realising that what was being attempted was to "reconcile the irreconcilable", leading to the basic separation between ethics and economics.

#### 4. Adam Smith and Classical Economics

As said, Smith, the founder of modern economics as an organic and rigorous subject as well as of the classical school of "open" theories, deserves particular attention, which I will duly, but briefly, give to him now, on the basis of the criteria of analysis for which I have argued above.

As is well-known, the foundation of modern economics by Smith took place with his *The Wealth of Nations* (1776), in which the great Scottish economist both "broke" the close relationship that previously "bound" economics to philosophy and economic practices to ethical principles and made economics once and for all a complete and rigorous subject. It is also known that the era of the classical school of economic thought, which begins with Smith, was to last more or less until 1870, when the neoclassical school established itself after the "marginalist revolution". From this point of view, many of the pillars of Smith's position - the postulate of *homo oeconomicus*, the role of the competitive market, the emphasis on the "gains from trade", the theory of the "invisible hand" - remained as such within the neoclassical school, *but* they underwent a certain "exasperation" of definitions and emphasis, whilst others fell by the wayside. In particular, those that were abandoned include the ones connected with Smith's view of economic practice and theory as being inherently "incomplete" or "open" and therefore needing to consider the moral, social and institutional conditionings as a way of "completing" or "closing" the economic outlook, even though they interact with it. The neoclassical position did upturn the Smithian or classical view, to the effect that economic practice and economic theory were thought of as being intrinsically "complete" or "closed".

As already mentioned and as also believed by other scholars [see Roncaglia and Sylos Labini (1995)], Smith did not abandon the role of the principle of benevolence or sympathy that he had expressed earlier in the *Theory of Moral Sentiments* (1759), before he published the "Wealth of Nations", where he established the postulate of *homo oeconomicus*. As I said before, I believe that Smith adopted that postulate with limitations, that is without considering it as absolute but by combining it with a distribution theory that, in spite of any uncertainty surrounding it, can be taken as exogenous to Smith's price (of goods) and quantity (of goods and factors of production) theories.

In fact, Smith determined exogenously the prices or rewards for all factors of production, that is to say distribution variables such as wages, profits and rent. Notice that interest, as a distribution factor, is a phenomenon that, starting from marginalist theory, has been considered independently relevant. Smith's theory deserves to be appreciated precisely for the coherence and completeness of his theoretical approach, once his "open", and therefore "incomplete", theory has been "completed" and "closed", that is made totally determined through the reference to an exogenous explanation, either moral or institutional, of the distribution of income.

With Ricardo (1815) and Marx (1867), we are at "the zenith" of classical theory and therefore of "open" theoretical positions whose "closure" - in the sense of completion and therefore of total coherence, even allowing for the many differences between the two great authors - again takes place in both cases through the reference to an exogenous determination of real income distribution.

Ricardo placed the problem of the distribution of income at the centre of his conception of political economy and he solved it brilliantly by resorting to a rigorously exogenous determination of two (rent and wages) out of the three relevant distribution variables (rent, wages, and profits), making profit a residual and therefore an endogenously determined variable. It is certainly not necessary to dwell on this question here, nor on his well-known "labour theory of value" for goods (or rather for goods produced), that is the idea that relative prices are linked to the ratios of the quantities of labour, direct or indirect, required to produce them [a question, as is known, which was not solved satisfactorily by Ricardo and would be much later by Sraffa (1960)].

In particular, Ricardo proposed a powerful way of looking at the *meta-economic* aspects of society - which were considered as external assumptions for the completion and success of the overall coherence of the "model" for the economic system under consideration - namely on the basis of a historical vision of the economy which, at that time, meant taking account of the British socio-economic conditions as characterised by the three classes of landlords, capitalists, and workers. It was from that vision that he derived a theoretical position subscribing to an "open" theory and its "closure" through the exogenous determination of the distribution of income among the three relevant social classes.

Marx, indeed much more than Ricardo, stressed the *sine qua non* role of a historic analysis of the capitalist economy, a situation which appeared to the great scholar and revolutionary, in the light of his ideas on dialectic materialism, as an advanced, fundamental, but also transient stage in the history of mankind. There is no need here to discuss the well-known Marxian positions, in particular the theory of classes and class conflict characterising the capitalist economy, the basic conflict between capitalists and workers, the microeconomic analysis of value and exploitation, or the macroeconomic synthesis of capitalist cyclical growth with its inexorably growing disequilibria in the economy itself (until the final catastrophe).

In particular, Marx, as a classical economist and advocate of an *open* economic theory, stressed the crucial role, in the exogenous determination of the distribution of income, of the wage rate. For Marx this is specifically dependent on the power relations between social classes, that is on the basis of the historically institutionalised and growing

social conflicts that are inherent in the capitalist system. Moreover, a more specific “closure” of the Marxian model has to be attributed to the role of the alternating power-status of capitalists and workers.

Although strongly “imbalanced” at an ideological level, Marx’s analysis has been appreciated for its suitability to the institutional situation prevalent in the much polarised bourgeois society at that time. However its contribution to actual capacity to settle any of the crucial social conflicts has not been a generally convincing one. On the contrary, in subsequent eras of equally great conflicts, some of the many threads of unorthodox economic theories, which have in fact proved to a large extent to be more concrete, human, and “liberating” than the Marxian one, have actually contributed much more both to the understanding (political economy) and the solution (economic policy) of the relevant conflicts in contexts in which the role in economics of different exogenous variables, as to moral, social and institutional premises, has been recognized.

### ***5. Neo-Classical Economics***

It is with the arrival, halfway through the 19th century, of the utilitarian and positivist positions in philosophy and social sciences and the marginalist revolution in economics about the 1870s, that the picture changes completely as far as the status and the role of value judgements in economics was to be considered.

To understand how and why all this happened falls into the field of the “sociology of knowledge”. At this point, as regards economic theories, first marginalist and later neoclassical theories, let me merely recall that there have been extensive discussions about the main changes involved, at least from the time of Schumpeter’s masterful historical-analytical reconstruction (see, e.g., 1954). Moreover, as the topic has been taken up again recently, one proposed solution is that some values were preferred to others, namely those being considered as intrinsic to economics, inherent to the professions and in particular to the market, and called “deontological” values, such as honesty, trust, transparency, etc. [for a recent restatement, see, among others, Enderle (1991)], instead of those “general” values which are external to the professions and the market. This is so even if the same neoclassical economists (and their present heirs) have often declared that they are not “insensitive” to such values, though repeating however that there has to be a separation between ethics and economics, as one is concerned with moral actions and the other with economic actions. There could be neither mixing nor contrasts between the two areas since each one performs its own part in the mutual autonomy of the two worlds.

Proceeding ahead in the most synthetic way, it is clear, in the light of what has been discussed so far, how positions of this kind do not stand and cannot stand. The point is that they do not and cannot stand for the reasons connected with the general relevance of Goedel’s fundamental theorem (1931), as well as for the specific difficulties that are present as to two crucial points: on the one hand, the difficulty connected with the “impossibility” of reasoning in terms of comparable human preferences and actions of different individualistic optimising agents and, on the other, the difficulty related to the “circularity” of the concept of capital. Capital, as a factor of production, needs to be taken as a “quantity”, but then - in order that its own reward, the rate of profit (or interest), be determined - it needs to be valued and this is done on the basis of a certain rate of interest (or profit) that will be obtained

through the marginal product of capital itself, as it is supposed to happen in the real world. Yet, the theoretical neoclassical paradigm, together with the idea of the separation between economics and ethics, was followed by the vast majority of economists (for philosophers it is a much more complicated question) in the sixty years between the 1870s and the 1930s. It coloured neoclassical theory without any substantial distinction between its various currents even in spite of relevant differences among each other over many “technical” aspects (think in particular of the differences between the partial equilibrium theorists in the wake of Marshall and many others and the general economic equilibrium theorists following Walras-Pareto and many others).

Then, on the “separation issue”, the position of neoclassical economists was to become more radical in the mid 1930s (and Robbins’ authoritative methodological position would appear to have said the “final word” in this direction). On the other hand, it seems to me very important to emphasise that just from the 1930s onwards until the present day, on the epistemological, methodological, ideological and value issues, strictly neoclassical positions and various non-neoclassical ones have co-existed and alternated with each other. They go from positivist to individualist and conventional positions, on one side, to rationalist, evolutionary, functional, realistic and personalist ones, on the other.

## **6. *The Keynesian Revolution***

Neo-classical theory, even if marked by so many well-known formal theorems and in spite of some important exceptions [in particular the great work of Schumpeter (1912)], was not capable of interpreting concrete trends and continuous transformations in the capitalist economy. The reality of these economies revealed gradually a whole series of difficulties, failure and above all serious and periodical cyclical crises which required a real paradigmatic revolution. This, however, took a long time in coming. Keynes himself, who was the author of strong intuitions and pioneering critical positions at an empirical level and as to economic policy measures, remained for a long time linked to the neo-classical school of Marshallian matrix [see, in particular, Keynes (1930)]. The real revolutionary change, which had evolved over a series of “passes” taken in the first half of the 1930s [see, in particular, Pasinetti’s (1999) interesting position], took place in 1936 with the publication of his fundamental General Theory and was followed by a number of crucial contributions before and after the Second World War and in various fields [even in growth theory where Keynes (1937) anticipated Harrod’s (1939) very famous paper, as Leon Ledesma and Thirlwall (2000) recently pointed out].

Notice that for Keynes a series of exogeneities, rigidities, and conditionalities always count and they have to be seen as “connaturate” to the very functioning of the capitalist economy, especially to what he called a monetary economy of production. All such characteristics can be explained from outside the economy, but are nevertheless an integral part of it. Thus they cannot be considered as being imposed on a mechanism that otherwise would be efficacious and efficient in its flexibility and functionality, as neoclassics and monetarists of every school affirm.

As is well-known, in the General Theory Keynes proposed several “revolutionary” changes, mainly for macroeconomics, from his opposition to Say’s law and to the quantity

theory of money to the crucial role played by the autonomous components of aggregate demand in the determination of the equilibrium level of total real income and employment.

Specifically for the purpose of this paper, we need to consider only one point, a point that has to be stressed in order to make clear that Keynes's theory and the whole theoretical approach of Keynesian economics should be considered as an *open* theoretical paradigm in the sense that is of interest here. Such a point, which represents a fundamental element in "Keynesian revolution", concerns a specific characteristic in the functioning of a mature capitalist economy, a characteristic considered by Keynes in its many implications and that he identified in the exogenous determination of nominal or monetary wages. It works through the collective negotiations between the trades unions and the employer federations in the various productive sectors and it is meant to represent a central institutional reality of capitalism in so far as the functioning of the labour market is to be seen as one of its key "institutions". [Notice that even Solow - the great economist of neoclassical growth theory (1956), which he believed should be "combined" with the Keynesian "synthesis" theory of short term macroeconomics [see Solow (2000)] - wrote of the "labour market" as a social institution (1990)].

Nevertheless, whilst this can be considered "the end of the matter" in strongly adverse economic conditions, I wish to underline that, in more general conditions, a true and proper exogenous distributional conflict can open up with all the consequences that have been specifically analysed in various directions after Keynes. Of course, this is possible in so far as an "open" economic theory is adopted, that will then be "closed" in any plausible way in the light of the "vision of the world" adhered to and the "value judgements" which are accepted by the author. It is therefore evident that a brilliant, well-thought out construction such as Keynes's, followed by the many other proposals made on the Keynesian front - starting with the famous analysis of the Phillips curve (1958), but let us not forget the works in the 1940s, from Tobin's seminal work (1940-41) onwards, and continuing with post-Keynesian, New Cambridge, and New Keynesian approaches - creates a particularly intense formulation of an "open" theory, as well as being a milestone in the history of economic analysis. Anyway, in this sense, in more and more instances, the relevant variables of the economy and also those of economic policy (notice, not only the objectives but also the instruments of economic policy) are determined not only and not all within the mechanisms endogenous to the economic system *stricto sensu*, but rather on the basis of interrelations between the functioning of the economy and the conditionings arising from outside the economy, that is from the value, institutional and social aspects of the situation being considered.

### **7. Keynesian "Animal Spirits"**

*Mutatis mutandis*, similar but separate considerations should be made for the specific thread of Keynesianism that is neo-Keynesian theory, also called "Old Cambridge" or Anglo-Italian theory [from Kahn (1931; 1959) to J. Robinson (1953-54; 1956; 1962; 1972; 1980), to Kaldor (1956; 1957; 1961; 1966) to Pasinetti (1962; 1966; 1999; 2000), to quote only the main scholars of the Cambridge (England) School, but enriched by the basic contributions of (at least) another two great economists like Kalecki (1933-1970) and Goodwin (1951; 1967)].

In this theoretical thread, the basic approach, besides referring in one way or another to the “Keynesian revolution” (this is true also for Kalecki, to whom a “Keynesian vision” *ante litteram* of the capitalist economy is to be attributed, and for Goodwin, who has developed a sort of Keynesian-Marxian growth theory), is surely characterized by being “open”, whilst, on the front of the “closure”, there are a number of differences, though a discussion of them goes beyond the limits of this paper. In fact, the common basic idea is that a capitalist economy - independently of the specific circumstances of expansion, stagnation or recession in which it finds itself - is characterised by the autonomous decision-making role played by capitalists-entrepreneurs. They are driven by what Keynes called “animal spirits” which, more or less sparkling depending on the situation, provide the impetus to the working of the whole economic system. These correspond to evaluations which concern present and future trends in the economy and are linked to a complex and interactive series of factors, also of a political nature, that is they are substantially dependent on the various power positions in society. They are also evaluations for the purpose of the possibility of credit and financing for the realization of decisions taken. Such decisions are therefore determined exogenously.

To synthesize as much as possible, I will say only that there are at least *two* relevant aspects in this type of approach, with respect to Keynes’s one, which need to be underlined here.

On the one hand, on the neo-Keynesian front, the fact that the characterization of the theoretical approach as “open” can be understood from *two* points of view: *both* as to the exogenously motivated overall capacity so that capitalists-entrepreneurs will determine the effective trends in the economy through their investment decisions, and also as to the capacity that they have to “support” such decisions through their exogenously given propensity to save (or consume). This, in various ways, counts much more than that of workers, although in the presence of the role that the trend in consumption has and also of the support that wages play - to use a Marxian-Keynesian theoretical insight - in the realization of the profit targets of firms [on this, see especially the position of an important and heterodox Italian economist, P. Sylos Labini, (1984)].

On the other hand, and more generally, exogenous factors, evaluations and expectations concern not only the short term but also the mid- to long-term period and therefore involve cyclical growth problems as to income and employment levels. But from this point of view the situation is far from being satisfactory. It is thus that Mrs Robinson, one of Keynes’s most prestigious pupils, in 1972 - in the middle of the economic crisis of that period in which monetarism, being the new version of neoclassical theory, was on the crest of the wave, and dominant both among theoreticians and political leaders in several Western countries, on the basis in particular of the well-known position of Friedman (1953; 1956; 1968; 1991) - wrote that the economic science was then to be judged “powerless” in the field of growth and development just as it had been before the world crisis of the 1930s as to depression in income and employment, against the interpretation of which the penetrating and convincing critiques made by Keynes had been directed. I would add that even the generic “Keynesian” theory, which nowadays is on the uptake again, can be considered unsatisfactory given the present overall situation of the world economy, that is with reference not only to rich countries but also and above all to the poor ones.

### **8. Monetarism and the Resurgence of Neoclassical Economics**

The present day situation is that a lot of water has flown under the bridge, whether that bridge is over the Thames, the Seine, the Danube, the Moscova, the Potomac or the Tiber! The dominant economic school is still the so-called “single-thought” of monetarism, neo-liberalism and globalisation, that is a school of a definite neoclassical approach and therefore of a “closed” kind. Now we know well that, just as the neoclassical theory had exploded in the second half of the 19th century, the recovery and reaffirmation of the neoclassical paradigm in the form of monetarism, at the end of the 1960s, happened as a result of the *difficulties* encountered by industrialized economies. These were a consequence of the continuous pushes towards inflation and recession together and especially, as far as inflation is concerned, of the establishment of a spiral of both demand pull and cost push pressures, which are in turn interactive with those arising from expectations of inflation. Hence “Keynesian” positions were deep in crisis, especially in the USA, or rather it was the distorted and excessive use of the theories and economic policies of “the synthesis” (especially those concerning the expansion of public expenditures) that was in crisis and came under fierce attack. At that time it was believed that Keynes’s whole analytical construction could be used as a scapegoat for a situation which had got out of hand but that could not certainly be attributed to the basic approach developed by the great English economist. His main objective (see also 1940) had always been to find suitable solutions to sustain and integrate the workings of a capitalist market economy, always emphasizing that conditionings and constraints of a meta-economic kind are present in such a way as to become “crucial” in its very workings. As said, from here we had the turning point and also the great merit, to be attributed to the “Keynesian revolution”, of having re-proposed a view of “open” economic theory.

Definitely, monetarism - in any one of its various forms and beyond some “technical” specificities - has been a re-proposition of neoclassical economics. There are four main fields in which such a “restoration” has taken place: 1) the re-statement of the so called “Say’s law”, whereby no unstable or underemployment conditions will prevail in “free” capitalist economies, at any rate in the long run; 2) the fact that money and finance are supposed as fundamentally in demand for temporary, transactional motives, so that money will eventually affect only prices, its growth will determine the pace of inflation, and its supply will have to be “rationalized” if prices and inflation are to be “governed”; 3) the point that inflation will be “accelerated” by the prevalence of the so called “augmented” Phillips curve, but inflationary expectations will be decelerated if the increase in money is “governed”; 4) consequently, a transmission mechanism of money and monetary policy which operates through its influence on nominal income, so that, once prices and inflation are “governed”, real income will obtain without any relevance for the Keynesian multiplier process, but via the so called monetary multiplier. In particular, from the viewpoint of my interpretation of the deployment of modern economic thought, it is clear that it is a specifically “closed” theory and thus it will share all the drawbacks and difficulties of that theoretical paradigm. Also the so called “endogenous” theory of growth - which, surely, is to be looked at as an “innovative” theoretical position from the specific viewpoint of an endogenous explanation of the overall real growth rate in capitalist countries, fundamentally, owing to its reliance on the marginalist theory of distribution, remains part of the neoclassical approach, and thus it shares the adherence to a “closed” kind of theory and to its basic difficulties.

Nowadays, now the pendulum of history has reached, so to speak, “anti-Keynesian” positions of an extreme type, it has become increasingly clear that, yet again, we have moved towards the situation of unstable capitalist economies in industrialized countries, not to mention other situations which were gradually emerging, such as the growing financierization of the economy and the gathering pace of the “new economy”, but above all the permanent harsh reality of underdevelopment and of the “abortive” efforts to develop for the vast majority of the earth’s population. Actually, scholars and people are beginning, slowly, to realise that is not sufficient nor satisfactory to reason in terms of a “closed”, “self-sufficient” and “self-referential” uniform vision of economics, at the cost of finding ourselves in front of a global socio-economic reality marked by strong growing disequilibria [for an interesting analysis, although at the level of the American economic hegemony, see Cline’s recent work (1999)]. In particular, it follows that only by referring to an “option” that combines an “open” theoretical approach and a really “enriching” ethical position, in the sense of relying on objective or universal values, can the great unresolved issues in today’s world economy be tackled in the right way and be differentiated according to the circumstances, both at the level of individual industrialized and developing situations and as to international economic co-operation.

### ***9. Conclusion: Contemporary “open” approaches***

There is no doubt that, in the years in which the monetarist and neo-liberalist thought was dominant, there were some important theoretical positions that - beyond the numerous threads of Keynesianism - kept the tension high in support of “open” approaches whereas their “closure” was variably based on different ethical options. I would like to conclude by roughly proceeding to refer to just two of these approaches and their theoretical and normative contents. On the one hand, A.K. Sen’s position, which is substantially based on the added role of “concrete human rights” in defining any socio-economic situation suitable for the maximum possible realization of the personality of all individuals (in particular 1970a; 1970b; 1973; 1981; 1985; 1987). On the other hand, the position of the so called “economics for mankind”, a position that starts off from an “open” theoretical approach to “close” it on the basis of a universal ethical vision largely, but not entirely, derived from Christian personalism [on this point, apart from the important works of F. Vito (in particular, 1949; 1954), there are some interesting earlier positions represented by the works of Antoine (1896) and Toniolo (1908-21) as well as works by contemporary writers such as Le Bret (1947; 1958; 1963; 1967); Zamagni (Ed.,1995); VV.AA. (2000); VV.AA. (2002); see also papers by the author already mentioned above (1998a and 1998b)].

As far as Sen’s seminal position is concerned, this is not the place to refer to his influential scientific production in any detail: it is worth remembering, however, the impact that Sen’s thought, concerning economic underdevelopment and development, had on the well-known positions of the United Nations Development Programme (UNDP) and on the drafting of the so-called “Index of Human Development” (the Human Development Report, 1990 and successive years). Anyway, it should be emphasized that, proceeding from a re-elaboration of K.J.Arrow’s (1951; 1963<sup>2</sup>) well-known “theorem of impossibility”, the great Indian economist elaborated his own very interesting “open” vision of economics, particularly in the way he argued effectively on the validity of proceeding to widen the so called “informative paradigm” which is necessary to build plausible functions of collective well-being and a valid theory of social choices. Thus, account will be taken, in place of

simple individual preferences, of intangible individual rights that can be defined as truly exogenous as compared to the working of the economy (whilst preferences are more frequently to be considered endogenous in capitalist markets). As R. Faucci (1991, p.217, quoting from Sen) writes, “Sen revives the centrality of the connection between ethics, law and economics”, complaining that “traditional economic theory has completely neglected the problem of obligation and the social reasons that underlie it”. Yet, from my own viewpoint, the specific way in which Sen proceeds to “close” his “open” theoretical vision, that is by means of ethical liberalism, can be considered a limited one: in particular, no real space is there for the influence of socio-economic inequalities, specifically of the structures of power, upon political inequalities and hence upon the capacity of the exercise of “liberal” freedom to remove “basic” unfreedoms. On the other hand, this cannot, nor should it, diminish the great analytical and propositional contributions that his broad theoretical construction gave to contemporary economic thought and not only economic.

As far as the positions are concerned that in various ways are linked to the *Christian personalist* approach - not only but predominantly Roman Catholic - in the first place there can be in my opinion no doubt that it involves adopting an “open” approach, whereas in principle there is no specific theory which it adhered to. Keynesian, post-Keynesian, neo-Keynesian theories and others of a more classical or different type have actually been followed (Marxian-type positions may even be included, obviously so long as they are “freed” from philosophical-materialistic implications, if possible). On the other hand, although in my opinion less convincingly, positions more in line with the private market economy have been followed, as well as positions on mixed economies, that is, in favour of State intervention in the economy in the form of public enterprise. Indeed, these different groups of positions would reason in terms of the same moral principles and criteria such as “the common good”, “the universal destination of goods”, “the prevalence of labour over capital”, “the preferential option for the poor” and other similar ones. My conclusive point is that this approach is more in line with a general Christian perspective which characterizes itself as “open”, with principles and criteria such as those just mentioned, instead of any approach which defines itself as “closed”. For, differently from the second case, in the first case it will be in the kind of “closure” adopted, on the basis of “objectively” defined values, that an economy displays its aims to the maximum valorisation of the universal nature of man and to the integral respect of human life in all its manifestations and under any circumstance.

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## ON ALTRUISM, CHRISTIANITY AND ECONOMICS

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*“As soon as the benefit to the other becomes an instrumental rather than an ultimate goal, the altruistic motivation evaporates. Only egoistic motivation remains.”* (Batson, The Altruism Question, p.224)

*“But when you do a charitable deed, do not let your left hand know what your right hand is doing, that your charitable deed may be in secret; and your Father who sees it in secret will Himself reward you openly.”* (Matthew 6:3-4, The Bible, NKJV)

### **1. Introduction**

The economic framework typically assumes that the *homo oeconomicus* is self-interested and motivated to maximise materialistic payoffs. This is known as *perfect rationality*. However, attention in recent economic research has been directed towards the preferences of individuals to include an element of other-regarding behaviour, more commonly known as “*altruism*”. As defined in the Oxford Shorter Dictionary (1993), altruism is the “[r]egard for others, as a principle of action”. Altruism is important in a variety of social scenarios. Take for example the case of wealth redistribution to defeat poverty. Consider the parable of the rich fool (Luke 16:19-31): a fine example of the tradeoff between materialistic and non-materialistic payoffs, and the message of the virtues of generosity – God loves a cheerful giver. For an extreme example of altruism, one needs no reminder of the unparalleled sacrifice of Christ on the cross in exchange for our salvation. Of course, this paper does not attempt to provide an explanation or justification for godly love. Rather, it discusses the concept of altruism, in particular economically. Its relevance with Christian belief and practice is clearly promoted in biblical teachings, although how it should actually be practised is an oft-debated issue. The issue of altruism is of interest not only to the economist or theologian, but also researchers of other fields such as social psychology, biology, and philosophy. As will be discussed below, the definitions and the explanations for altruism vary not only between but within fields.

To motivate the importance of understanding altruism, allow us to consider the following examples. First, it is useful to characterise the effects of altruism as working in direct and indirect means. Philanthropic giving is one example of altruism creating a direct social impact. Consider an individual with a certain marginal return from the possession of “money” – for example a starving child in Ethiopia receiving a transfer of wealth from another individual, say the CFO of an investment bank, with relatively lower marginal return from the same dollar. The net social gain is Pareto improving, and brings us closer to the social welfare frontier. However, the selfish *homo oeconomicus* would be “irrational” in making such a transfer, since even the “meagre” marginal return from that extra dollar yields added utility (assuming money to be a normal good). Other examples include the debates on

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the Jubilee and debt cancellation. Altruism, on the other hand, may take an indirect social impact. Consider the case of the “altruistic voter” (Hudson and Jones, 1995), where the choice of a leader or party leads to policies giving asymmetric weights to the improvement of social welfare.

There is no doubt that much of today’s economic theory stems from Adam Smith’s (1776) exposition on the *Wealth of Nations*. The evolution of the Smith’s *homo oeconomicus* has developed into a more sophisticated, yet generically similar being: the economic predictions of most economic models are founded on the self-interested, money maximising, and perfectly rational individual. Even models of bounded rationality (c.f. Rubinstein, 1998) rely, at least weakly, on the assumption of self-interest. However, observations of other-regarding behaviour must not be disregarded simply by assuming “irrationality” on the part of these “real-world” agents. Some authors have attempted to explain this behaviour based on a rational framework, as will be described below. Observed altruism, they claim, is perhaps explainable based on a more sophisticated form of self-interest: “...we should first look for ways in which an individual believes that giving to charity is the best thing to do with that money at that time” (Andreoni, pp. 11370, 2003). Theoretical work in economics provides several alternative explanations for observed altruistic behaviour.

Empirical work on altruism may rely on data from the field (for example opinion surveys or national statistics), or elicited in the experimental laboratory. Although field data may provide us with an idea of altruism, they are seldom able to separate deeper issues such as motivations behind giving. Furthermore, there is often lack of control in the field environment. For example, considering the case of philanthropy, it is difficult to tell if observed giving was due to reasons of “prestige” or “warm glow” (see below). However, field data can, at least, give us an idea of the existence of altruistic behaviour. Such problems may be solved by experiments designed to disentangle such effects. Experiments are conducted under controlled environments. For instance, if one were interested in the effects on  $x$  on  $y$ , and these effects may be due to mechanisms  $a$  and/or  $b$ , an experimental design that eliminates the intermediate effects of  $a$  tells us the effect of  $x$  on  $y$  due to  $b$ , as opposed to “perhaps  $a$  or  $b$ , or both”. Experimental work on altruism may be found in literature from fields such as socio-biology, experimental psychology, and experimental economics. These will be surveyed below.

This paper aims to introduce the concept of altruism in economics, considering that altruism (“*Agape*”) forms a foundational building block for the Christian faith. We do so by surveying existing literature. Although the variety of literature cited is not exhaustive, we hope to draw the reader’s attention to work in this area of economic research. The remainder of this paper is organised as follows. Section 2 considers the theoretical aspects of altruism, where we look at the definitions of altruism and some empirical work supporting its existence from a variety of disciplines, particularly economics. Section 3 deals with the issue of Christianity and altruism by reviewing some empirical evidence. Section 4 concludes.

## **2. On altruism and its existence**

What is altruism? Does it exist?

Moral philosophers such as Hobbes have described the motivations of humans in society to be individually motivated and brutally selfish. Selfish behaviour apparently vanishes, to some extent, when the individual must enter a social contract whereby selfish gains are sacrificed, in return for the benefits derived from the collective, the Leviathan. Political connotations to this may be found in the works of other scholars such as Locke, who motivates democratic political structures by the naturally occurring interdependence of individuals in collectives. However, a closer introspection from an economics perspective reveals that the prosperity of such societies is supported only by the common desire to maximise ultimate individual gains. Socio-biologists such as Dawkins (1983) and Sober and Wilson (2001) describe altruism as the act of sacrificing of individual reproductive fitness in the process of enhancing another's. The concept of altruism is further categorised as *reciprocal* and *kin* altruism. These categories explain altruism based on the relationship between benefactor and beneficiary. Biological definitions of altruism may be taken metaphorically, and used in the economics context (c.f. Cooper, 2001, who applies it in an evolutionary game-theoretic framework studying economic altruism). They shall not be further discussed here.

Batson et al. investigate the existence of altruism in a series of psychological experiments, commonly known as *Batson's ABC*. The first experiment (Batson et al., 1981) attempted to link observed behaviour with linked with unobservable motivation. Subjects were placed in a situation where they observed a young lady receiving electric shocks, and given the opportunity to take the shocks in her place. Before this, they were provided with a placebo, and told either that the pill induces anxiety and distress (*high empathy treatment*) or warmth and sensitivity (*low empathy treatment*) (depending on the experimental condition). They assumed that subjects in the high empathy treatment will feel that their response to the person in need would be that of empathy, while those in the low empathy treatment will attribute it to personal distress. The experimental conditions also varied along the dimension of "escape" (*easy* or *difficult*), i.e. the cost of helping out. The results indicated not only that altruism exists, but that increasing the cost to help does not necessarily reduce the help expected (since the condition where help was least observed was the combination of *easy escape-low empathy* treatments. They further investigated if the observed altruism was due to wider social evaluation (see "prestige" below) by introducing new treatments of *high* or *low social evaluation*. The *high empathy* treatment resulted in a high level of help observed in both *high* and *low social evaluation* treatments. Cialdini et al. argued that this may be explained by what is known as "negative state relief", which is indeed a selfish motive to relieve one's own distress rather than that of the needy. Batson et al. (1988) countered this in another experiment with a treatment involving dividing subjects into two groups, one which were in the capacity to help, while those in the other group could do nothing about it. Their hypothesis was that if altruistic behaviour was selfishly motivated, those with the opportunity to help would feel a greater mood improvement when relief was provided. However, mood improvements were observed to be high in both treatments, thus confirming that concern was for the other rather than the self – as observed in these experiments.

In economics, there exist several workhorses for experimental work on altruism, namely: the *dictator game* and the *public goods game*. A game is loosely defined as an interactive scenario involving the actions of players that interdependently map onto outcomes, in terms of (monetary) payoffs. The public goods game involves the provision of a public good, non-exclusive to the members of the group, entails the costly contribution of an

individual. The selfish *homo oeconomicus* would rather his co-player bear this cost, while he benefits from the public good. Assuming all players are rational and reason alike, and this is *common and perfect knowledge and rationality*, no one contributes – this infamous result is known as the “free-rider problem”. In the dictator game, the dictator is endowed with a certain amount of money. His task is to divide this between himself and the potential beneficiary. There is no reason to expect the self-interested *homo oeconomicus* to transfer anything at all. However, we find in countless experiments positive contributions by subjects in the public goods game. Keser (2002) provides a survey of a variety of public goods game experiments. The same observation is made in dictator game experiments, where positive transfers are commonly observed.

Behaviour may be due to motivations either extrinsic or intrinsic (Frey, 1997). *Extrinsic motivations* are induced by material payoffs. Strategic effects are useful in explaining for behaviour motivated thus. “A behavior propensity is strategic if it influences others by affecting their expectations” (Schelling, 1978, p. 229). For example, Zamagni (1995) summarises that seemingly altruistic behaviour may be explained by non-altruistic motives such as reciprocity, reputation, or non-tuistic motives. Andreoni (2003) argues that donations may be motivated by the tax system itself, for tax return purposes. When one does a good deed in hope of the return of a favour at some future date, this is known as reciprocity motivated. Reputation plays a role in motivating altruism: altruistic behaviour may signal the willingness to cooperate, giving rise to further benefits from cooperation if such signals are effective. A more conventional definition of strategic effects is the incentive for taking a certain action, as embodied by the elements of the strategic scenario (henceforth known as a “game”). Becker’s (1974) explains that if the head of a family cares for the welfare of the members of that family, a selfish child may have the incentive to maximise the welfare of the family. He explains that because selfish behaviour reduces welfare accruing to the family, in turn, reduces the transfer from the head of the family to himself. The initial gain from being selfish results in a relatively greater loss later. This is known as the *Rotten Kid Theorem*. Further examples of extrinsically motivated altruism include making donations for purposes of prestige. Harbaugh (1996) theoretically formalises the relationship between philanthropy, tithing, prestige and the “warm glow”. He explains that when donations are observable by others in society, individuals may choose to make donations not because of the benefit it derives its beneficiaries, but for selfish gains in terms of prestige. Other examples of research in this area includes fairness (Fehr and Schmidt, 2000), and efficiency and reciprocity concerns (Bolton and Ockenfels, 2001).

*Intrinsic motivations*, on the other hand, are induced by innate preferences. The “warm glow”, according to Andreoni (1989), is the “feel-good” factor responsible for some acts of giving, and is a fine example of giving based on intrinsic motivation. An experiment by Andreoni and Miller (1998) shows that simple neoclassical preferences may describe such behaviour with well-behaved preferences. One may further disentangle the motivations behind giving by considering that the same individual may be motivated by a variety of the abovementioned reasons to behave generously. An attempt to capture the interactions between egoism, inequality aversion and altruism may be found in Tan and Bolle (2003). The utility function of a dictator, specified by their study, may be described as follows:

$$U_1 = x_1 + ax_2 - \frac{b}{2}(x_1 - x_2)^2$$

where  $x_1$  is the payoff to the dictator,  $x_2$  is the payoff to the beneficiary ( $a$  being the parameter for altruistic preferences), and the third term captures the (normalised) disutility from inequality (i.e., when the beneficiary gets a lower payoff from the dictator). Their experimental data organises a large number of observed experimental behaviour. One should note that subjects in this experiment played these games under complete privacy and anonymity, in that nobody besides themselves knew about their own actions. Andreoni further attributes some altruistic behaviour to “confusion”: subjects simply do not understand the game.

### 3. Christianity and altruism

Andreoni (2003) reports that “among all types, households are most likely to give to religious organizations and to give them the most money – 48 percent of all households give to religion and 59 percent of all charitable dollars go to religion.” (p. 11372). On the other hand, a social psychological experiment by Batson, Schoenrade, and Ventis (1993) showed us that the religiously influenced are *not* more likely to alleviate needs of another (“empathy-altruism”). In another study, an opinion poll conducted by BBC Radio 4 investigated the voting patterns of households in Britain, comparing the responses from Church members and non-Church members (BBC Radio 4, 2001). 87.7% of Church-members who responded to the survey claimed that religious beliefs bear an influence on their voting decisions. The questionnaire entailed respondents to rank the importance of desired policy implementations, and also the source of influence on voting decisions. However, contrary to biblical teachings, responses from Christians reflect greater emphasis on voting decisions based on the pursuit for selfish needs, rather than social needs (e.g. Health vs. 3rd world relief). What can we say about intrinsically motivated altruism due to religious backgrounds, in the economic sense?

An experiment on the relationship between economic altruism and religion is reported in Tan (2003). In particular, he investigates if relatively more religious individuals are likely to be more altruistic. The form of altruism considered here is that of direct, intrinsically motivated altruism. The experiment involved two phases. In the first phase, subjects were asked to fill in a survey containing 60 items, 30 of which were religiosity related multiple choice questions. Religiosity is treated here as a multi-dimensional concept, following De Jong et al. (1976). In particular, questions varied along the dimensions of belief, experience, ritual, moral and social consequences, and religious knowledge. The remainder of the questions were based on political, social, and individual preferences. They were used as “distractors” so as to avoid biasing subject behaviour in phase 2, for example, to “make a statement” on the part of undesired extrinsically motivated effects. With this survey, he was able to obtain a measure of religiosity per individual, based on the dimensions that satisfied intercorrelation criteria with regards to the concept of religiosity. Two weeks after the survey was submitted, subjects were invited to the laboratory to perform incentive-compatibly rewarded tasks on partitioned computer terminals (phase 2). The tasks involved dictator games (DG) and ultimatum bargaining games (UG)<sup>2</sup>, with varying rates of transfer. By

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<sup>2</sup> The ultimatum game is described as such. A proposer decides how much to divide between herself and her co-player, the responder. The responder decides whether or not to accept or reject the proposal. If accepted, both players receive their respective payoffs according to the proposer’s terms. If rejected, both players receive nothing. Standard game theory predicts

varying transfer rates, the institution of different costs of sacrifice is implemented (for the effect of transfer rates, see Tan and Bolle, 2003). The transfer rates follow those of Andreoni and Vesterlund's (2001) dictator game experiments. Subjects were not provided with feedback on outcomes per round until after the experiment. They were also randomly and anonymously paired with other subjects, and were paid for one random-winning round.

The primary results from the experiment are as follows. Religiosity was once again confirmed as a multi-dimensional concept, based on factor analysis. Based on the items that met the empirical criteria of intercorrelation, subjects were separated into two clusters, namely high and low religiosity. A comparison of their behaviour in the DG reflected no significant difference on average and across transfer rates. Results from the UG concurred in general. Next, he categorised subjects (by the minimised squared Euclidean distance) from three behavioural types: selfish, efficiency-concerned, and inequality-averse. The distribution of subjects in relation to behavioural types did not differ across groups based on a Chi-square test of distribution. Further, regression analysis did not reflect any systematic relationship between religiosity and displayed altruism. A randomness test confirms that there is no relationship between the degree of religiosity and altruism. The reader interested in the technical details of the experimental design, analysis, and results is referred to Tan (2003).

It should be stressed that Tan's experiment was designed specifically to test intrinsically motivated altruism in the market place. Still, it at least provides us with an exploratory study of the impact of intrinsic motivations due to religious background on altruistic behaviour. One might argue that monetary incentives and the economic framework provide us with a method of incentive-compatibly testing for altruistic behaviour in general. In other words: if monetary cost and benefits also translate to non-monetary terms, then these results should hold in cases where money is not directly an issue (for e.g., time and effort). On the other hand there are arguments against this. For example, the laboratory environment induces subjects to perceive it as a money-making opportunity, and so the contextual frame involved is weak in eliciting altruistic behaviour. This may further be justified by the contention of subjects that they are all of equal financial fitness, and therefore the act of being monetarily selfish in the laboratory will not bear serious implications on the life of the disadvantaged beyond the laboratory constraints. Tan also notes that although altruism did not differ across subjects of different religious backgrounds, still, the positive transfers observed at an aggregate level indicates the existence of altruistic behaviour. One should therefore be careful when interpreting the result of the comparison. He also speculates that the observed behaviour may indeed be a result of socially stable norms, perhaps explainable by the transmission of religious norms throughout history. This is an indirect transmission argument: norms are passed down the ages through ancestors to descendents. The other contention is on the use of monetary incentives – they may by themselves crowd out intrinsic motivations for altruism (Frey, 1997). Whether these results also carryover, in terms of external validity, to encompass a broader set of real-world cases, such as volunteer work for the needy, should be treated carefully and discerningly. It is only with further research that we may form a clearer and more comprehensive idea on the relationship between religious influence and altruism.

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that the proposer will offer close to nothing, and the responder will accept any positive proposal.

#### 4. Conclusion

This paper reviewed some of the literature on altruism, in particular from the economics perspective. We looked at the taxonomy of motivations for altruistic behaviour, namely intrinsic and extrinsic motivation. Explanations for altruism may be selfishly motivated, upon closer inspection. Altruism is shown to exist in general. On the other hand, empirical work relating Christianity and altruism is limited, and therefore we have yet to achieve a comprehensive and conclusive view on this relationship, as displayed by “real-world” agents. Further research is required, before this may be achieved.

Such knowledge has practical use in a variety of situations, such as understanding the efficacy of the dissemination of religious teachings, and the social welfare implications as such. This further extends to the consistency between biblical teachings of the Christian faith and daily practice in the “real-world”. The importance of altruism and Christianity is not to be taken lightly. This paper dealt mainly with the concept of altruism from an economics viewpoint, and linked it with Christianity via a survey of the literature. It however does not explicitly discuss what altruism is or at least should be to a Christian, which in this case is better left to the discerning interpretations of the reader. For a philosophically expounded theological perspective on this issue, the reader is referred to Grant (2002), and of course God’s word, the Bible.

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# INTRODUCING RELIGION INTO ECONOMIC THEORY

*Andrew Britton*

## **1. Introduction**

The majority of men and women, all over the world, have some form of religious faith and allegiance. Yet economic theory, which seeks to explain some, if not all, aspects of human behaviour, generally has ignored this pervasive influence on individual and social life. There have nevertheless, been some attempts, especially within the last twenty years, to explain religious behaviour within the framework of a standard neo-classical model<sup>1</sup>. In a recent survey article Iannacone distinguishes three distinct types of enquiry. The first, which is his main concern, seeks to understand religious behaviour from an economic perspective, that is as “rational” in the sense of the word used in mainstream economic theory. The second looks at the economic consequences of religious belief, using econometric methods to estimate, for example, the effects of religious belief on income or employment. The third type of literature, which he does not attempt to review, is written from a religious point of view, using theology and sacred writings as a basis for the assessment of economic policy and systems.

None of these three kinds of study, however, actually addresses what is really the crucial issue in any dialogue between economic theory and religious belief. The method of economic theory, unlike the other social sciences, is based ultimately on a kind of introspection. It describes human thought and action, as it were, from the inside. If one takes religious belief seriously, therefore, as the basis on which people really do make choices, then the standard model must be seriously incomplete, or indeed misleading, as a description of their behaviour in many, perhaps in all, important contexts. This will be the case if the beliefs are sincerely held, irrespective of whether they are in fact true or false.

This problem has not gone altogether unnoticed. Frank Hahn, in an interesting essay on ethics and economics, has this to say<sup>2</sup>:

“For much of economics concerned with “ought” questions, one form or another of utilitarianism is the organising principle. But what if citizens are not utilitarians? For instance, history may have left them with absolute religious foundations for right and wrong. Would not the underlying principle that it is the individual’s assessment of his or her own satisfaction count against the application of a utilitarian ethic?”

The reference to “history” in this quotation may not quite do justice to what is meant by a deep personal religious commitment! It recognises, however, that many people do not perceive their own well-being in the way that welfare economists commonly assume. Neither would they necessarily describe their choices between alternative actions as based on some utilitarian calculation. They might not even see the choices open to them in quite the same way. They live, it would seem, in a different world.

This paper will compare the concept of “economic man” adopted by neo-classical theory with an alternative concept of “religious man”, that might better describe how a large proportion of real men and women think that they behave. As with “economic man”, this

mental construct is chiefly a product of introspection, although it is not obviously out of line with actual observation. The aim is simply to identify the main points of difference and similarity. It draws on the conclusions of a recent study of “Economic Theory and Christian Belief”<sup>3</sup> for which the present author collaborated with a Christian theologian. In this paper, however, no attempt will be made to identify the content of religious belief. It could be Christian, but it could equally be Jewish or Moslem, or even Buddhist or Hindu.

Three areas of economic theory will be considered in turn: rational choice, individualism and social behaviour, production and the use of scarce resources. In each case the presuppositions of economic theory will be contrasted with those of a religious perspective. This will encompass most, but not all, of the main concerns of economic theory, examining the very foundations on which the subject is built. In a short paper the treatment must, of course, be sketchy, but it may serve, nevertheless, to open up a range of important issues for examination.

The underlying question in all these areas could be put like this: can economic theory be expanded or modified so as to take religion seriously, or are the views of human nature and experience so profoundly different that any reconciliation between them is actually impossible - as some theologians<sup>4</sup> would argue? This question is obviously of interest to practising economists who themselves have a religious faith. It should also concern any economist who is interested in the realism of the assumptions on which the subject is built. If no reconciliation is possible then economists might have to conclude that introspection is, for many if not all men and women, a quite unreliable basis on which to construct a model of motivation and the interpretation of experience.

The implications of this contrast between economic theory and religious belief may actually be much wider even than that. Economic theory can be seen as formulating and codifying what might be called a “modern” or Enlightenment view of the world. Very similar assumptions underlie the dominant view of politics and society in much of Europe and America. By contrast religious beliefs may be characterised as “pre-modern”, although this hardly does justice to developments in faith and practice in the last two hundred years or so. Within each religious community, and in the minds of many religious believers, there is a strong tension between a traditional understanding of faith and the outlook of a pluralistic or secular society. Ultimately this paper is about how, if at all, such tensions might be resolved.

## **2. Rational Choice**

The text-book model of rational choice is very simple and familiar. The individual has a preference or utility function and faces a set of constraints. The task is to find the outcome which observes all the constraints and maximises the utility score. Although initially met by most students as a description of choice by a consumer with a fixed budget, it can be adapted or extended to model a very wide variety of choices, provided that the preferences and the constraints are clearly defined, known in advance and independent of the process of choice itself.

Economists are well aware of the possible short-comings of this simple view. It does not do full justice to the way that people describe their own decisions. Commonly they are motivated by precedent, custom and habit. Often the information is not available from which the outcome of alternative actions can be predicted. More sophisticated forms of decision

theory have been devised to address these problems, whilst retaining the basic premises of rationality and independence. More worrying, perhaps, is the empirical evidence from psychologists of systematic departures of observed behaviour from what economic theory would predict<sup>5</sup>.

At first sight it might seem quite easy to incorporate religious belief or practice into this model of choice. One could simply state that the individual's religion helped to determine the shape of his or her preference function. A Hindu, for example, would have a strong preference against eating beef, or an orthodox Jew against eating pork. This might be taken as implying that, under some circumstances, any religious believer would be prepared to go against the practice of his or her faith - assuming that preference functions are convex. But the model could still cope with faith that admits of no such compromise: the laws of religion could be written into the set of constraints.

When we turn to the way in which choices are described in a religious context, however, we meet with a very different way of looking at the process. Actions are not only assessed in terms of their outcomes, but also in terms of their motives. The laws of religion do not just dictate what believers should do, but also why they should do it. Some attitudes are praised and others condemned. In other words there are rules, or at least "preferences", as to what one's "preferences" should be.

Some economists, reacting to this kind of criticism of the standard model, have invented the concept of "meta-preferences". Thus in a survey of the literature on economics and moral philosophy<sup>6</sup> we find the following discussion:

"The standard model of rationality rules out conflicts among preferences, but one cannot rule realities out of the real world, and such conflicts obviously exist. There may be conflicts between "first-order" preferences, such as a preference for smoking, and "second-order" or "meta-preferences", such as a preference that one does not prefer to smoke. Such conflicts can give rise to internal struggle, feelings of regret and deprivation, and apparently inconsistent behaviour, such as purchasing cigarettes but then locking them away or flushing them down a toilet."

This line of argument leads naturally on to theories of what has been called "rational addiction", that is preferences that have been changed by patterns of consumption, and which have been deliberately and rationally chosen. Thus one economist of the Chicago school has written<sup>7</sup>:

"In economic analysis of addictive behaviour, the consumption of a certain good is termed to be an addiction or a habit if an increase in current consumption of the good leads to an increase in future consumption. [] A harmful addiction is one in which current consumption has detrimental effects in the future, such as reductions in health and therefore in utility caused by cigarette smoking and excessive alcohol use. Similarly, a beneficial addiction is one in which current consumption has favourable effects in the future, such as increases in future utility from attending and acquiring information about operas today. Other examples of beneficial addictions are attending church, jogging or playing tennis on a regular basis."

The reference to churchgoing in the last sentence of that quotation is of particular interest in the present context. Religion is habit-forming and one reason for regular religious practice might be to cultivate the habit. One could choose to become more devout. Yet most believers would surely want to add that they do not cultivate their religious devotion purely in order to add to their own utility. They would want to say that worship, prayer, and contemplation are of intrinsic value, whether they accord with one's "preferences" or not.

This points towards a more fundamental difference between the economic and the religious account of choice. In economics preferences, values and tastes are taken as given<sup>8</sup> and it is assumed that each individual knows best what is good for him or her. In most religious teaching, however, there is some objective judgement of good and evil. A right decision is one that is in accord with this external point of reference. Thus what is chosen and what is right will in general be quite different. To lead a good life one must seek wisdom and learn to want what it is good for one to have.

Economic theory, in common with modern science and philosophy generally, makes a strong distinction between positive statements of fact and normative statements of value. In religious teaching these two kinds of knowledge may be very closely related indeed - and wisdom embraces both. It is both prudent and virtuous to do what the religious law requires, and to become the sort of person that is shaped by religious faith. Wisdom does not come just by acquiring information, but through interpreting it correctly, that is to say placing it within the framework of faith. It is that framework that enables a religious person to make consistent choices, fitting each new decision into a pattern that can be discerned in events.

One type of choice often presented in religious teaching is the response to a call. An individual is given an opportunity, or a challenge to their way of life. It would be misleading to model this in terms of pre-existing preferences and the evaluation of alternative outcomes. It may mean a totally new beginning and a completely new set of values. It may also be something of a leap in the dark, an emotional reaction as much as a calculated plan leading to predetermined goals. This does not mean that it is necessarily irrational or incapable of reasoned defence.

Another kind of choice might be the response to temptation. This could be presented as a matter of prudence, if virtue is expected to be rewarded and vice punished either in this life or another. But faithfulness to one's beliefs and code of conduct may equally be regarded as good in itself. To give way to temptation is not just a mistake, it is an act of folly, showing moral weakness as well as lack of foresight. It may be seen as an act of betrayal, as a promise broken and as an insult to one's better self.

The language of commitment suggests a means by which economic and religious views of choice might be brought rather closer together. The mathematical theory of games is now used in a wide variety of contexts to explain economic behaviour. It can be shown that commitment can be advantageous even when it limits the range of options open in the future. Some religious choices might be analysed using a similar logic. They might involve interactions between different elements within the personality of the individual, or else as a part of the relationship between the believer and God.

Important differences remain between the understanding of strategy in game theory and the meaning of trust and commitment in the language of religion. Game theory is all about calculation, whilst religion generally appeals to the heart as well as to the mind. Religious commitment is nothing if it is not sincere. However, some economists are aware of part that emotions play in actual situations of conflict and co-operation<sup>9</sup>. Sometimes it is advantageous to feel, and to display, emotions even if they seem to be unreasonable. Thus a person who is unreasonably co-operative will be able to form durable alliances, whilst a person who is unreasonably aggressive will be able to deter potential rivals. This could be an area of research where economics and religion are drawn a little closer together.

### ***3. The Individual and Society***

In economic theory it is individuals that have plans and make choices, who experience happiness and enjoy well-being. They are real: they exist in a sense that social groups - families, business corporations and nation states - do not. It can be shown that a unique utility function cannot in general be formed by aggregating across the utility functions of many individuals. One cannot, therefore, as an individualist speak meaningfully of the beliefs, preferences, values or well-being of societies or communities, except perhaps as a very imprecise and potentially misleading form of shorthand.

This methodological presupposition often goes with a strong commitment to personal freedom, democracy and human rights. Any restriction of individual choice is likely to reduce total well-being; it cannot be justified in terms of such myths or abstractions as social solidarity and the common good. The legitimacy of any such restriction must depend upon consent, actual or implied, on some form of tacit or real social contract. In all this the spirit of the eighteenth-century Enlightenment still breathes today in economics of the neo-classical tradition.

The commitment to freedom can be both intrinsic and instrumental. It arises, in part, from the assumption that individuals know their own minds and what is good for them, but there is a moral dimension as well. Thus, according to one careful and eloquent presentation of the case by a practising development economist<sup>10</sup>:

“It is a deep fact that rational individuals know, and would be expected to know, a good deal more about their purposes than the State. Now this does not mean that people do not miscalculate, or that bad luck does not befall them, frustrating their projects and purposes. Risk cannot be avoided. But it is their own mistakes that will prevail if it is they who choose, and it is this that is asserted when the claim is made that people must be allowed to be free to make their own mistakes. The idea here is that rational persons are the best judges of their own risks. There is also the parallel thought that people should be responsible for their lives, otherwise moral agency would be impaired. People would not be exercising their agency role were they not the ones who were doing the choosing.”

It might seem that the ideal relationship between sovereign individuals in this tradition is like that between competitors in a perfect market: anonymous and at arm's length. Obviously, however, economic theory takes account of other, closer, kinds of interaction. The benefits of co-operation are well understood, and also the means of ensuring that it is in

the interest of individuals to maintain it. Even the institutions of marriage and the family can be modelled as the stable outcome of a bargaining process such that none of the parties has sufficient incentive to quit. Thus a recent contribution to the literature takes individualism to its logical conclusion<sup>11</sup>:

“This paper models the decisions of two people living together. Each attempts to maximise his or her own utility. Yet they are interdependent in two respects. Family members are interdependent, first of all, because they care about each other. Second, there are public goods within the family, such as housing [] The two family members” interdependent utility maximisation problems are solved in two stages. In the first stage we find the non-cooperative Cournot-Nash equilibrium. In the second stage we take the Cournot-Nash equilibrium as a threat point in a bargaining game.”

Individualism is not, of course, the same as selfishness. Economists are often accused of neglecting the altruistic motives of men and women, but the charge is not justified - at least in relation to their formal models. The theory recognises without strain the possibility that some individuals will choose to behave in an altruistic way, valuing the well-being of others as part of their own. The important assumption is that they make up their own minds to behave in this way.

The definition of individualism offered by one distinguished advocate is as follows<sup>12</sup>:

“A broadly perpetuated fiction [] that society consists of a set of independent individuals, each of whom acts to achieve goals that are independently arrived at, and that the functioning of the social system consists of the combination of these acts of independent individuals.”

He calls it a “fiction”, one assumes, because he knows that the preferences of each individual are formed by the social and cultural environment. Clearly then they are not independent from those of other members of the same group. A social scientist might well recognise that fact, yet choose, nevertheless, to ignore it and to treat individual preferences as data when analysing how individuals interact.

In religious traditions, however, the identity of the individual may appear as a “fiction” in a much stronger sense. The continuity of experience, or the process of choice itself may be dismissed as an illusion. Alternatively, the identity of the religious community may be thought to be more real than that of each member - a “member” is, after all, just one limb or organ of the living body. Or again, the only true freedom may be said to consist of the service of God.

Religion itself often reinforces social cohesion. A common faith and experience holds the group together and defines its boundaries. This is something that economic theory might wish to acknowledge, if it is possible to do so without abandoning its core assumption of individualism. It might, for example, make use of established knowledge of the sociology of religion, which is a recognised branch of social science. But sociology is typically based on assumptions and methods quite different from those of economic theory. It does not, in particular, make the same use of the method of introspection. It observes the phenomenon of religion from the outside, as it were, rather than modelling religious experience as believers

themselves would describe it. It is therefore more akin to “behavioural” economics than to the neo-classical mainstream of the subject.

For economic theory to take religious experience seriously would be to incorporate religious awareness into a model of individual and social experience, just as the introspective method takes seriously our awareness of free will and moral responsibility. This might include recognising the real existence of social groups, attributing to them on occasion real choices to which moral praise or blame might be attached. It could also mean that a particular individual, a king for example, could represent or personify the group as a whole. Different religions will imply different models, but none will be easy to reconcile with methodological individualism. Religion threatens the core assumptions of economic theory in respect of individualism, just as it does in respect of rationality. To introduce one into the other is no easy task.

#### ***4. Scarcity and the Use of Resources***

The use of resources in a perfectly competitive market is such that no unambiguous welfare improvement is possible. All the “gains from trade” have, in effect, been achieved. In respect of allocative efficiency, according to economic theory, a local market is good, a national market better, and a global market best of all. If production is included in the model as well as exchange, then it can be shown that a market economy will produce an optimum level of output - not the maximum possible, but an efficient level taking account of time preference and of the opportunity cost of labour. All this theory provides support for the advocates of the market system against the alternatives of centralised economic planning or exchange that is governed by custom and tradition.

The case for the market would be greatly strengthened if it could be shown, not only to use existing resources efficiently, but also to stimulate the improvements in technology on which continuing economic growth depends. Generally such claims have been made on an informal basis - for example<sup>13</sup>:

“Capitalism has proven far more efficient than centrally planned economic systems in developing and utilising technology, and in adapting to the rapidly changing conditions of a global division of labour, under the conditions of a mature industrial economy.”

The development in recent decades of theoretical models with endogenous growth may make possible a more precise and secure basis for such assertions. The existence of property rights provides the incentive for research and development, whilst the possibility for profitable imitation provides the incentive for dissemination. Certainly the growth of modern market economies has been spectacular. It has aroused the envy of many who live in more traditional societies.

Religious objections to the market system may sometimes be dismissed as mere conservatism, or the defence of ancient privilege. Nevertheless, if we take religion seriously those objections, both in practical and theoretical terms, need to be heard. Does economic growth actually make people happier. This can be questioned even from within the framework of mainstream economics. There can be little doubt that prosperity, more income and more consumption, increases the sense of material well-being for those who are very

poor, with inadequate food and shelter. It is a more open question how much extra income actually contributes to the subjective happiness of those who already have enough to live on. In cross section at one point in time, there does appear to be a significant, but not very strong, relationship between income and happiness<sup>14</sup>. Over time, one might hope to see people getting happier on average, as average incomes rise, yet the data from the surveys are not at all conclusive.

Interpretation of these survey results commonly relies on some concept of relative incomes. Consistently with this view, it can also be argued that the true motive for much of consumer spending in rich countries is the acquisition of status. Happiness may depend on one's place in the ordering of income or of spending. To the extent that this is true, any attempt to raise average well-being would always be in vain. An even more pessimistic view is presented in a recent theoretical paper<sup>15</sup>. It is possible that, in the process of development in a market economy, resources may be diverted away from the production of "normal" goods that really do increase well-being to the development and promotion of "status" goods which do not.

This critique, although serious enough in its implications, does not do full justice to the religious objections to the expansion of the market system. An even more fundamental question concerns the proper scope of the market: are there some goods and services that cannot be bought and sold without committing a kind of sacrilege? This is an issue which troubles many consciences, and it is discussed in the opening chapters of one popular economics textbook in relation to the sale of human kidneys<sup>16</sup>:

"Should people have the right to sell parts of their bodies? Congress believes that the answer is no. In 1984 it passed the National Organ Transplantation Act, which prohibits the sale of organs for transplantation. Organs may only be donated. Although the law prohibits their sale, it does not make organs valueless. Instead, it prevents those who supply organs (living persons or the families of the deceased) from reaping their economic values[.]. Some potential recipients die as a result[.] Many complex ethical and economic issues are involved in the sale of organs. These issues are important, and this example is not intended to sweep them away. Economics, the dismal science, simply shows us that human organs have economic value that cannot be ignored, and that prohibiting their sale imposes a cost on society that must be weighed against the benefits."

Economic theory cannot begin to explain what the objections to the sale of kidneys might be. Equally it is at a loss to explain the prohibition of simony or prostitution. Where there is the potential for mutual benefit by a purchase and sale, why should it be so vehemently condemned? Ultimately the answer must be expressed in religious, or quasi-religious, language. Some things do not really belong to us as individuals, to dispose of as we wish. They are holy, or sacred, or perhaps taboo - perhaps they belong to some other being or spirit, for example to God.

A religious believer might even question the premise underlying all economic theory that resources are scarce. Sometimes at least, nature produces abundantly, more than enough to satisfy human needs. We should be thankful for all the blessings that fall upon us, seeking to live in harmony with our environment, not to control or to change it. Happily, human

experience does include circumstances to which such a response is more appropriate than the anxious care typified by the behaviour of “economic man”.

## 5. Conclusions

Economic theory is so profoundly secular in its assumptions that any attempt to introduce religion into it seems likely to be very problematic. We have identified some modifications of the standard economic model that might make the task a little easier. The notion of “meta-preferences” could be seen as relevant to the religious experience of calling or of temptation; game theory does recognise the benefits of faith and commitment; the concept of social capital might contribute to understanding a religious view of community; the recognition of status or “positional” goods may suggest why religious people often assert that “enough is enough”. All these are helpful pointers towards fruitful dialogue. Nevertheless, the gulf between “economic man” and “religious man” remains unbridged.

The easiest response would be simply to say that economic theory and religious teaching are different ways of looking at the world, each arising out of a different social context - and to leave it at that. This would leave unanswered the question of truth. If economic theory and religious teaching can both make valid claims to describe reality then there should be some way of reconciling them.

One function of a religion is to integrate the whole of experience so that it all coheres and “makes sense”. This is to provide what is sometimes called a “meta-narrative”, that is a story which puts all other stories in their place<sup>17</sup>. Some philosophers would maintain that this is impossible and that, in a pluralist society all narratives and perspectives are equally valid. For a religious believer, however, the perspective of his or her own faith is, by definition, correct, whilst all others are, to a greater or lesser degree, false.

The task, then, for an economist who is also a religious believer, is not to introduce religion into the “meta-narrative” of economic theory. On the contrary, it is to decide what place, if any, to give to economic theory within a religious account of reality.

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**REVIEW: Happiness – Has Social Science a Clue? By Richard Layard, The 2003 Lionel Robbins Memorial Lectures, London School of Economics, Centre for Economic Performance, April 2003.**

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Richard Layard is a distinguished economist, professor at the London School of Economics and co-director of the LSE's Centre for Economic Performance. He has advised governments both at home and abroad. In 2000 he was "elevated" to the House of Lords. These three lectures were given as the 2003 contribution to the LSE's annual Lionel Robbins memorial series, and have been published in "occasional paper" format by the Centre for Economic Performance.

Economists seemed to have become very interested in happiness in the last decade or so. One wonders whether this reflects a search for fulfilment among an increasingly introverted and angst-ridden profession. The central "puzzle" (though a puzzle that might come as no great shock to Christians) is that while real income per head in the advanced economies has risen nearly threefold over the last half century, people report that they are no happier on average (Layard reports US data in his lectures). Only Denmark and Italy appear to buck this general trend within Europe. How is happiness defined? Of course different psychological surveys find different ways to present "happiness" questions to their subjects, but for Layard happiness is "feeling good – enjoying life and feeling it is wonderful". Apparently, according to data on Texan working women (reported by Layard from work Kahneman *et al.*), sex makes them happiest (and at the mean it occupies 12 minutes of each day!), whereas commuting (which at the mean takes twice as long) makes them least happy. Praying (which reassuringly occupies at the mean 18 minutes per day more than sex!) ranks seventh out of 19 listed activities.

Why are we not getting any happier? Apparently psychologists blame this on two effects. The first is habituation (or adaptation); the second is rivalry. Habituation says that as we get richer, we just get used to having more. So economic growth is futile, and the writer of Ecclesiastes was right, it seems (see Ben Cooper in this journal, 1998). An interesting question, then, is by converse would we be happier if we made do with less? Christian authors over the last two thousand years have argued so – the popular writings of Ron Sider and Tom Sine form two recent contributions. Rivalry says that it is all about comparison (or if you prefer a conceptualisation with a rather older provenance, then it is about covetousness). So, for example, the data tells us that the more your spouse earns the less happy you are likely to be. Rivalry also explains why the rich generally (in cross section) report that they are happier than the poor – but note still the contrast with the time series evidence. But according to Layard it is not all bad news. David Blanchflower and Andrew Oswald, examining data across US states, show that if my income increases, then the loss of happiness to everyone else in my State is only about 30% of my gain. Conclusion: promoting covetousness works on a strict cost-benefit calculation!!

So should economic policy be designed to provide the greatest happiness for the greatest number? Jeremy Bentham, the man who thought future generations of students would gain satisfaction from gazing on his stuffed and preserved corpse, thought so. While contemporary economics is firmly rooted in the consequentialist ethic of utilitarianism, my impression is

that for many economists the richness of human experience cannot be reduced to such instrumentalist terms. So it is perhaps surprising that the thoroughly modern (perhaps too “modernist”) Layard concludes his lectures by arguing for a return to Bentham. Yes, Layard says, economic policy should be explicitly designed to seek the greatest human happiness. Why? Because, as Layard argues, it is in our nature to want to be happy, and to want others to be happy, and because we have an innate sense of fairness which seeks equal treatment of equals. We are at least partially unselfish. There is much to agree with here – as Christians we believe that we are created in God’s image to enjoy His blessing. He wants us to be fulfilled creatures.

How does this translate into “evidenced-based” policy? Layard marshals the evidence in the third lecture of the series. There is a lot of philosophical discussion about whether my happiness score can be compared to yours – Layard addresses this but argues that it is possible. So the data he reports suggest that reducing job insecurity and stress at work, promoting secure, safe families and communities, promoting mental and physical health, and enlarging political and personal freedom will all add to reported human happiness. There is little or nothing to disagree with here. But there are some fascinating aspects to the findings – in particular see Table 3.2, which reports recent empirical work by John Helliwell. The biggest increase in individual human happiness (a rise of two and a half in the “happiness index”) is associated with a move from tyrannical government to a free democracy. The second biggest (a rise of two in index) is associated with changing your answer from no to yes to the question “Is God important in your life?” Everything else (a 50% increase in your family income, a binary change in your perception of whether people can be trusted...) scores a rise of one or less in the index.

So what improves human happiness? The answer it seems is a range of factors to do with freedom, trust, income, personal morality, marital stability, health and job satisfaction. But the inescapable conclusion seems to be that people who have faith in God are happier. Should Christians be surprised by this? Layard seems to be, because he does not really seem to know what to do with this finding. He prevaricates: “no research has sorted out how far belief causes happiness or how far happiness encourages belief”. Cynics often say that religious belief provides a “crutch” for the miserable – Layard says it might be a luxury for the already happy. Further research is needed, but what instrumental variable should one use for “religious belief”? Perhaps the stagnation in happiness over the last fifty years, in the face of unparalleled economic growth, has got at least something to do with the decline in religious belief in the advanced economies.

The problems with Benthamite utilitarianism have been well discussed in this Journal and elsewhere. Christians generally balk at such a strictly consequentialist take on the world – we want to say “yes, we agree with the aim of promoting economic welfare, but there must be exogenous moral imperatives constraining what we do”. Thus for example trust is intrinsically important, we need more of it not just because it makes people happier. So we might be rather less sanguine than Layard about the practical possibilities for using economic (and strictly economic) policy for making people feel more fulfilled. Nevertheless Layard’s lectures are a fascinating survey and well worth careful consideration.