Promoting Good Wealth: CST and the link between Wealth, Well-Being and Poverty Alleviation (A Background Paper)

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In the Pontifical Council for Justice and Peace's document *The Vocation of the Business Leader* there is a call for Good Goods, Good Work and Good Wealth. This short background paper will explore some of the issues raised by this call for Good Wealth, linking this call to the historical distinction that has been made between what, for want of better terms, can be called "good" and "bad" wealth.[1] This distinction is also at the heart of Benedict XVI's controversial statement in his encyclical *Caritas in veritate* (2009): "Once profit becomes the exclusive goal, if it is produced by improper means and without the common good as its ultimate end, it risks destroying wealth and creating poverty" (CV 29). Benedict's juxtaposition of profits, one of the main ways wealth is created in a market economy (and a sign of successful business practice) with wealth destruction and poverty creation is a challenge to profit maximization ideal of business.

The purpose of this paper is to look at the insights that the Catholic social thought tradition provides for understanding wealth, specifically the important distinction between when wealth is promotes the common good ("good" wealth), and when it retards the common good ("bad" wealth)." It is my argument that CST provides a broader understanding of well-being, and thus provides a more useful criterion for making the distinction between "good" and "bad" wealth. Furthermore, I will argue that CST also helps us to understand the true nature of what constitutes wealth in the proper sense of the word; that is the "assets" that best promote future well-being, giving a wider range of assets that should be included in the "wealth of nations" based on a wider understanding of well-being. The need to go beyond the narrow "market" based economic activity to understand the process of economic development and well-being is becoming more commonplace today (Acemoglu and Robinson, 2012) as mainstream economics moves in the direction of Catholic social thought.

1. The distinction between Good and Bad Wealth

An examination of economic history shows that Benedict's suggestion that economic activities designed to create wealth can instead destroy wealth and create poverty reflects the norm rather than the exception. Historically, individuals and communities have accumulated wealth by stealing valuable assets from their neighbors or by conquering and enslaving them. Looking back it is hard to find wealth creation free of force and fraud. A look at the great empires from the ancient world (Babylon, Persia, Greece, Rome, Eqypt,) or the modern world (British Empire, Spain, Japan, Third Reich, USA) clearly demonstrates the connection between military conquest and economic surplus. The transition from Conquest to Commerce is played out over and over in human history, on both a large and small scale. One has only to look at the role of the slave trade and the extraction of gold, silver and other minerals from Latin America, two activities that play a key role in the rise of the West (and their continued dominance) to see how massive wealth creation can at the same time cause massive and lasting human suffering and poverty. Even the recent Financial Meltdown of 2008 and the subsequent Great Recession was at its heart a massive fraud designed to redistribute wealth from the great majority to a small elite, leaving tens of millions unemployed, and even worse outcomes in the developing countries.

Yet history also teaches us that capital accumulation based on technological improvements, in tools, techniques and management, have greatly augmented human effort, producing real improvements in producing goods and services and providing for real and significant rise in the standard of living of hundreds of millions in the Developed World. While there is no doubt that the rise of the West was subsidized by the wealth of the world's poor, it is also true that the massive increase in production levels go way beyond what was stolen from Africa, Latin America and Asia (and the original inhabitants of North America). While no country has made the transition from developing to developed without a large infusion of wealth from outside the country, it is also true that many countries that have gained from force and fraud do not make the transition, as most of the increase in wealth go to the elites to support their lavish lifestyles, and not invested in productive activities.

Wealth as a general term refers to assets that will be used for future economic activity. Wealth can be individually owned, socially owned, be partly individual and social, or part of the commons. These assets are sometimes exchanged in markets and sometimes regulated by tradition or command (political power). "Good" wealth consists of assets that are created, distributed and used in a manner that respects human dignity and promotes the common good, thus leads to increases in well-being. "Bad" wealth consists in assets that are accumulated in an unjust manner (using force or fraud), is distributed in a manner that benefits only elites and excludes the poor and marginalized, and is used to create invidious distinctions and not for the common good. All wealth, it should be noted, is due to two factors: God's gift of creation and the store of technical knowledge humans have developed over the centuries, both which we in the present have inherited, and for which we can take little credit.

While it is a common for people to say "governments do not create wealth, only businesses create wealth" this is a completely false statement. Government (political power) is essential for all wealth creation, good and bad. Firstly, no wealth is created without protection of private property and individual security, and this is only done effectively through government provided law and order (as Adam Smith stated). Secondly, government investment in roads, bridges and other infrastructure is essential to increasing production and standards of living, and only governments can do this sufficiently (another point made by Adam Smith). The government's investment in roads, bridges and buildings is real capital formation and to suggest otherwise merely shows ignorance of what is wealth. Thirdly, government investment in basic science and technology is the main driver of economic growth in a modern economy, investments that the private sector could never make, giving us the internet, GPS, the computer, cell phone as well as most of the medicines that comprise modern medicine (not to mention most of the medical equipment). Plus only governments can provide universal public goods like fire protection, national defense and education and healthcare, all of which increase productivity. Lastly, governments are, and have been, a major provider of financial wealth, both in terms of government debt, and more importantly as issuer of currency, both of which play a major role in a modern economy (which could not exist without both). That these might be overproduced does not negate their positive role when prudently managed, just as the over production of private capital (such as in a housing bubble) does not negate the critical role private investment plays in economic growth.

The fundamental role of the government in wealth creation does not negate the also fundamental role of businesses in the wealth creation. While governments have the deep pockets to fund basic science and build roads, the private sector has the flexibility to direct productive resources towards the goods and services individuals and communities need. Critical to the efficient use of productive resources is the "invisible hand" of the market, Adam Smith's term for competition and profits. Markets provide a decentralized institution for collecting diverse information flows and presenting it in a manner (mostly via price changes) that inform economic actors (producers and consumers) to adjust their individual actions to best achieve (or hope to achieve) their goals, and their view of their own common good. As Adam Smith noted, the individual will most often know what is in their best interest better than anyone else (except maybe our mothers) and thus we improve their participation in their own lives, making them better protagonists of their own life story.

Wealth creation, distribution and use are significant factors in the real economy because of the well-being of both individuals and society at large is partly, in fact largely, the result of how their productive assets are used. Thus how these productive assets are created, distributed and used is of great importance. In fact, not only the economic well-being of the community, but also its political and social life is greatly determined by the creation, distribution and use of wealth in its broadest definition. While how wealth is created, distributed and used greatly determines the success of the overall economy, how individuals benefit is based on ownership and rights to access these productive assets. Much of this wealth consists of capital goods (factories, machines and tools) that promote current and future production, but more than machines and workers are needed for an economy to "function correctly". The community's stored knowledge is more than the tools that embody this knowledge; it also includes the means for organizing and coordinates human activity (institutions).

In a market economy our emphasis is typically on private wealth creation which is the result of market activity. Force and fraud are excluded from the "perfectly competitive market" as all actions are free and voluntary, and incomes earned are supposed to the result of the "marginal revenue product" of the factor of production. Or as John Bates Clark stated long ago: "the distribution of income of society is controlled by a natural law, and that this law, if it worked without friction, would give every agent of production the amount of wealth which that agent creates" (Clark 1965, p. v). While individual productivity is often hard (or impossible) to measure, and incomes are more set by bargaining power than marginal revenue products, we do know that a country's standard of living is based on the productivity of its workers and the extent and efficient use of its productive assets (market and non-market).

2. The Catholic View of Wealth[2]

There is no "objective" standard by which we can measure wealth, or make the even more complex distinction between "good" and "bad" wealth. Markets are social institutions, and yield outcomes based on social values (or the values of those with a "market voice"), and markets can create "good" or "bad" wealth, and often both. We should remember that the slave trade consisted of a series of markets. How society structures markets (rules of the game) is based on social values and power, and how economists think about wealth is based, or grounded in, how they understand the nature of the human person. The distinction between "good" and "bad" wealth is often a distinction between conceptions of well-being, which in turn is based on the theorists' adopted view of human nature. In neoclassical economic theory wealth is seen as individually owned assets that yield an income because their view of the human person is that of an "autonomous rational economic man" who seeks utility maximization thru market transactions as their highest good. A different view of the human person, as we find in Marx, gives us a different definition of "good" wealth.

When Benedict XVI stated that *"The economy needs ethics in order to function correctly* — not any ethics whatsoever, but an ethics which is people-centered" (CV 45) he gets to the heart of the matter, and Catholic social thoughts contribution starts with is view of the human person. In Table 1 we contrast these two extreme views of human nature with the Philosophical Anthropology that underlies Catholic social thought, which emphasizes both the uniqueness of each individual AND the necessary sociality of each person. Humans are created to be social and only become fully human, and achieve authentic human development, by living, working and giving themselves with and to others. Once you define what it means to be human and what is the nature of society, your view of wealth and poverty (and much more) is greatly influenced. An individualistic view leads to methodological individualism, the man is totality of social relations view calls for methodological holism, while the unique individual with a social nature leads to a more process, individual/social interaction methodology (which we find in Institutionalist Economics). This Catholic view of human nature is the basis of the Integrated Human Development model, which sees the human person, the whole person and all people, as the central focus of economic development. The IHD model, based on the encyclical *Popularum Progressio* by Paul VI is the foundation for how the Church understands development, and informs development strategies of Catholic agencies[3].

Table 1
Three Visions of "Just Economy"

	Neoclassical Economics	**Marxism**	**Catholic Social Thought**
Human Nature	Autonomous Rational Economic Man	"Man is totality of social relations"	Person- unique individual with social nature (*Imago dei): Reason, free will and social nature*
Society	Mechanistic	Organic	Process=individuals and social institutions
Wealth	Assets that yield an income	Assets that assist in material production	Assets that promote human development
Poverty	Flawed Character Theory	Structural/Discrimination	Exclusion

Starting with the CST view of human nature we view society as the interaction of individuals and social institutions, with both influencing the other, making society a process always in development, and not an individually or social created equilibrium system. It also leads to a broader understanding of wealth, one that recognizes that many market and non-market based assets are necessary for human development. Furthermore, it leads to a deeper understanding of poverty, which we will return to below. First we will look briefly how the Catholic tradition has understood wealth, applying the broader understanding of human flourishing to critically evaluate various forms of wealth.

The Christian view of the human person leads to a different definition of wealth. It firsts recognizes the role of God in wealth creation. All wealth stems from a gift from God for all, and not just for the few. As John Paul II has stated in *Centesimus Annus*: “The original source of all that is good is the very act of God, who created both the earth and man, and who gave the earth to man so that he might have dominion over it by his work and enjoy its fruits” (*CA* 31). Our social nature is directly linked to wealth creation, just as much as God’s gift of creation, for all wealth is based on shared human knowledge, human cooperative efforts and our natural environment. While individuals have to contribute to this process, any individual’s contribution to this joint effort is always going to be miniscule.

Second, it recognizes that human dignity and justice have to be respected for “good” wealth to be created. Human dignity is central to understanding all economic activity. As John Paul II stated: “The dignity of the human person is a transcendent value, always recognized as such by those who sincerely search for the truth. Indeed, the whole of human history should be interpreted in the light of this certainty. Every person, created in the image and likeness of God (cf. Gn 1:26-28), is therefore radically oriented towards the Creator, and is constantly in relationship with those possessed of the same dignity. To promote the good of the individual is thus to serve the common good, which is the point where rights and duties converge and reinforce one another. (World Day of Peace Message, 1999, in The Social Agenda, 2001, p. 24).

The third insight on wealth from the Catholic tradition is that wealth is a means to a higher end and that wealth cannot be our ultimate or final end. This is probably the most common lesson the Bible gives on wealth. We see the warning of wealth being a distraction to our higher ends clearly when Jesus tells us: “Do not store up yourselves treasures on earth, where moth and rust consume and where thieves break in and steal; but store up for yourselves treasures in heaven, where neither moth nor rust consumes and where thieves do not break in and steal. For where your treasure is, there your heart will be also” (Matthew 6:19-21). “No one can serve two masters: for a slave will either hate the one and love the other, or be devoted to the one and despise the other. You cannot serve God and wealth.” (Matthew 6:24). This leads to what Pope Francis has called the “new idolatry of money”.

The last insight of CST on wealth we will note is that the first claim on the use of wealth is the poor. This is the CST principle of the Preferential Option for the Poor, which for Catholics is not an option. As Jesus tells us in Matthew 25 we will be judged based on how we treat the poor and marginalized, both as individuals and as a society. The last section of Matthew 25 is the judgment of the nations after all. The creation of wealth can never be at the expense of the poor, and when economic activity creates inequality, such inequality must be to the benefit of the poor and marginalized. While God loves everyone, when there is a conflict between rich and poor, God sides with the poor. As Gustavo Gutiérrez notes (1988, p. 167):

> The prophets condemn every kind of abuse, every form of keeping the poor in poverty or of creating new poor. They are not merely allusions to situations; the finger is pointed at those who are to blame. Fraudulent commerce and exploitation are condemned (Hos. 12:8; Amos 8:5; Mic. 6:10-11; Isa. 3:14; Jer. 5:27; 6:12), as well as the hoarding of lands (Mic. 2:1-3; Ezek. 22:29; Hab. 2:5-6), dishonest courts (Amos 5:7; Jer. 22:13-17; Mic.

> 3:9-11; Isa. 5:23, 10:1-2), the violence of the ruling class (2 Kings 23:30, 35; Amos 4:1; Mic. 3:1-2; 6:12; Jer. 22:13-17), slavery (Neh. 5:1-5; Amos 2:6; 8:6), unjust taxes (Amos 4:1; 5:11-12), and unjust functionaries (Amos 5:7; Jer. 5:28).

Gutiérrez goes on to note that the Bible does not simply object to the treatment of the poor. "[I]t is not simply a matter of denouncing poverty. The Bible speaks of positive and concrete measures of preventing poverty from becoming established among the People of God. In Leviticus and Deuteronomy there is very detailed legislation designed to prevent the accumulation of wealth and the consequent exploitation" (Ibid.). Thus the use of wealth has to be to the benefit of the poor and marginalized. As St. John Chrysostom notes on the rich man mentioned in Luke 12:17-18 who wanted to build larger barns to hold his expanding wealth: "In truth he took down his barns; for the safe barns are not walls but the stomachs of the poor" (Chrysostom, 1984, p. 43).

3. Wealth and Poverty Alleviation from a CST perspective

We will now turn to how this Christian view of wealth can inform our approach to alleviating poverty. As with wealth, we will start with a brief look at how poverty is understood. Then we will look at how the expanded view of wealth in CST allows for useful insights into reducing poverty.

Understanding Poverty

Poverty, like wealth, is a social construction not a natural fact (something we observe in nature), nor is it the natural state of humans. And as with all other social constructions, our understanding of it is mostly based on the "vision" that underlies our theories, especially our understanding of the human person. If we view humans from a purely individualistic perspective, with all outcomes seen as the result of markets, then we will see poverty as solely the result of inadequate market participation, that is, people are poor because their value added to production is low. This has been called the "flawed character theory." A person is poor because their income is too low due to their low level of productivity, which is the result of a lack of investment in capital (physical, financial and human). A country is poor because they have too many individuals with low productivity. Here poverty is lessened by getting the poor to make different choices. If we take the opposite view of human nature, we will explain poverty as a purely structural problem, that is property rights, laws, discriminations or other structures create barriers to the participation of the poor and marginalized, thus leading to their low incomes. The solution to poverty here is to change structures, either by breaking down barriers, or by redistributing control or ownership of assets.

A third approach attempts to combine elements of the previous two, recognizing that people are poor both because of individual and structural factors, recognizing that it is hard, if not impossible, to separate what are individual and structural causes. Individual actions (choices) will promote poverty but social structures greatly influence the range of choices and the preferences of choosers, as well as the consequences of choosing badly. This third approach, which we find best in Institutional economics (theory used to develop the New Deal and Welfare State) defines poverty as more complex than income inadequacy. Amatya Sen capabilities approach to poverty fits here as well: "At the risk of oversimplification, I would like to say that poverty is an absolute notion in the space of capabilities but very often it will take a relative form in the space of commodities or characteristics" (Sen, 1983, p.161).

Sen's capabilities approach, like Catholic social thought, recognizes that poverty is more than material inadequacy, and includes social and political poverty. Sen has developed his approach in *Development as Freedom* (2000), the most important book on poverty in the past 50 years. Sen as a key player in the development of the United Nation's Human Development Index as a broader measure of poverty, and in the current effort of international agencies to address the social and political aspects of poverty, and not just promote increasing material output (which not to say that increasing material output isn't important, for it is critical, but it is to recognize that all aspects of poverty are interdependent. I think that the argument in *Why Nations Fail* (Acemoglu and Robinson, 2012) fits into this approach as well, as it emphasizes the role of institutions in shaping individual behavior and social outcomes.

A Catholic understanding of Poverty

Poverty and the treatment of the poor is a fundamental issue for the Catholic social thought tradition and the mission of the Church (Clark 2010). According to John Paul II the Church's commitment to the poor is "proof of her fidelity to Christ" (*LE* 8). Elsewhere he noted: "The Church, from her origins and, in the contemporary era, through the Encyclical *Rerum novarum*, has proclaimed and practiced *a preferential option for the poor*, considering it a 'special form of primacy in the exercise of Christian charity'" (Message for the 43rd Italian Catholic Social Week, November, 1999). The centrality of the "option for the poor" comes from God's special love of the poor as evidence that He loves us for us and not for our accomplishments or attributes. Our solidarity with the poor is part of the *Imago dei*, being made in the Image of God, and part of our calling to imitate Christ. Furthermore, Jesus Himself instructed His followers to care for the poor, that collectively we will be judged at the last judgment based on how we treated the poor and marginalized. Every economic issue, problem, structure, process and outcome is evaluated first from the perspective of how they affect the poor, with a negative judgment here overriding all other effects.

A Catholic understanding of poverty can be summed up in the phrase "poverty is exclusion". Poverty cannot be reduced to being merely an economic phenomena or outcome, such as low income. Poverty can be social, political, cultural and spiritual as well as economic, and often these are interconnected. Economic poverty is exclusion from the production and consumption of economic goods. Social poverty is exclusion form the social life of the community one lives in. Political poverty is exclusion from the processes by which public and civic decisions are made. Cultural poverty is exclusion from participating as a producer and benefactor of the cultural life of a community. And spiritual poverty is exclusion from God. All forms of poverty, that is all exclusions, can be individual or structural and most often are both, as they reinforce each other, and it is hard to separate individual and collective causes and effects neatly. A recent Intervention by the Holy See Permanent Mission to the United Nations nicely demonstrates the significance of this view of poverty:

"Poverty constitutes a vicious circle of which exclusion is both its cause and consequence. Poverty results from people and communities being excluded from participating in the economic, social, political and cultural life of the societies in which they live as one human family, as they are unable to develop their capacities and are denied the opportunities necessary to provide for themselves, their families and their communities. Exclusion effectively impoverishes the whole human family, since the potential contributions of the poor to our collective well-being are lost through the goods and services that are left unrealized, political perspectives and values left unharnessed, and the art, stories and songs for the collective human history left uncomposed. Excluding the poor means denying them from their rightful share in the life of the human family, in its hopes and dreams, its successes and its accomplishments, all of which are rooted in our common humanity, and to which no one country, people or culture can claim exclusive ownership. All people have, on account of their membership in the human family, the birthright to benefit from this common heritage as well as a right and a duty to participate in enriching this tremendous legacy.

Since exclusion is the central cause of poverty, eradicating poverty can only come through inclusion of the poor. Economic, social, political and cultural inclusion means first to break down all barriers to inclusion, all exclusionary privileges that benefit the few at the expense of the many, that generate artificial and unsustainable wealth for some while creating poverty for others. Exclusion promotes the monopolization of the collective human intellectual and natural heritage, unfair trade regimes, chronic economic and political dependence, to name but a few instances. Inclusion, on the other hand, means inviting the poor to participate in the world's economic, social, political and cultural systems as full partners, building up their capabilities so that they can take their deserved seat at the table for all, as equals, so that economic exchanges will be mutually beneficial and that politics will involve real partnerships. This model of inclusion constitutes a truly human-centered bottom-up approach to poverty eradication and will help to ensure that sustainable development goals become a model for fostering partnerships which capitalize on the vast experience and wisdom of those who daily face the harsh realities and challenges of poverty with courage and forbearance."

Wealth and Poverty Alleviation

Most theories of economic growth or economic development emphasize the importance of "capital accumulation," that is the directing of current production towards investment goods that will allow for even greater output in the future. Capital accumulation is necessary for economic growth and development, as economic output will only grow if the physical means of production (factories and equipment) is increased and improved, and for modern business practice, increases in financial assets (credits and debits necessary to carry out business activity at a large scale) are also needed. Furthermore, as production uses resources, natural assets are required for expanded production. This is all well known. But economic development, especially sustainable development that promotes integral human development, has to go beyond these current categories of wealth.

But research is showing more and more that economic success is more than just the technical problem of capital accumulation. Institutions, culture, politics, and history also are necessary if we want to explain why some countries, or some people, are rich and some are poor. Wealth in its broadest sense should include all assets that promote material well-being. Following Catholic Relief Services Integral Human Development model, we should view wealth as all the assets that promote human development: Physical Assets like factories and tools;

Natural Assets of land, water, minerals etc.; Financial Assets of the various credit instruments that allow for trade; Political Assets of good governance institutions that provide for the necessary public goods and investments that make all economic activity possible; Social Assets the promote human participation and development; and Spiritual & Human Assets that give life meaning and purpose.

All of these assets are based on the accumulated knowledge of the community, and can be said to be a reflection of this common heritage. An individual's wealth is often about control of these socially created assets. In most analysis of economic development only the assets that can be monetized via markets are included in the analysis, as control of financial assets is the main source of economic power in our society. Yet often the barriers to development are found in underdeveloped political, social or human assets, and not because of a scarcity of natural or financial assets. Many international agencies are moving in the direction of CRS in recognizing a wider area of assets that constitute the wealth of a nation. Of particular concern, given the reality of climate change, is the natural asset of pollution absorption.

Creating "good wealth", that is wealth in its broadest sense that is linked to well-being will reduce poverty. Well-structured markets will do this if there are sufficient pathways for the poor to participate in activities, so that their skills and abilities can contribute and develop. But the non-market wealth: good governance; civic institutions; investment in health and education; and other public goods like infrastructure will also disproportionally benefit the poor, as they cannot get access to these assets in private markets. Giving support to the poor is merely giving them the same support as is given to the affluent. In rich countries like America the government subsidizes housing for the middle-class and rich much more than it does for the poor, it just calls it a tax deduction instead of public housing, but it is government assistance none-the-less. The same is true for rich countries versus poor countries. The businesses in rich countries are highly subsidized by their national governments. Giving such aid to businesses in poor countries is just evening out the playing field.

Summation

The purpose of this background paper is to show how the Catholic social thought understanding of wealth, particularly its call for "good" wealth presents a challenge to how we understand economic and business practice. Catholic social thought is not an alternative economic theory or an alternative economic system or set of policies. The Church does not wish to take over each community's agency in solving its own economic problem (how each community provides for its material reproduction). Yet it does provide a more complete view of well-being and human nature, and thus presents a view of Integral Human Development that gives a broader perspective on development and poverty alleviation. It provides a "people-centered" ethics to inform economic inquiry and action. CST is a set of ethical standards, based on the Gospels and the natural law, to be used to evaluate processes and outcomes. To promote human flourishing, CST suggests:

Good wealth promotes integral human development, the whole person and all people. Bad wealth sores up material wealth at the expense of spiritual wealth.

Good wealth creation respects human dignity, communities and the environment. Bad wealth creation (wealth capture) exploits workers, resource owners, citizens and customers.

Good wealth is economically, socially and environmentally sustainable. Bad wealth sacrifices future prosperity, social stability and environment.

Good wealth is distributed widely, promoting participation based on ability to contribute. Bad wealth creates artificial scarcities and inequalities.

How business practice can be informed by this broader view of human flourishing, especially with regards to alleviating poverty, is the subject of this conference. It will take the collective wisdom of many perspectives, disciplines and experiences. It will require the lived experience of the "people of God" working in business and following Jesus in their economic lives. Theory without experience is empty; and experience without theory is aimless. We hope our participants can bring together both so that we can move the lived reality of rich and poor in the direction of a life of dignity for all.

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Notes:

[1] The art historian John Ruskin suggest the term "illth" for wealth that is unjustly acquired, or which causes harm to others.
[2] This section is based on Clark 2006a and 2006b.
[3] See Clark 2012 for a comparison of CST and economic theories of development.