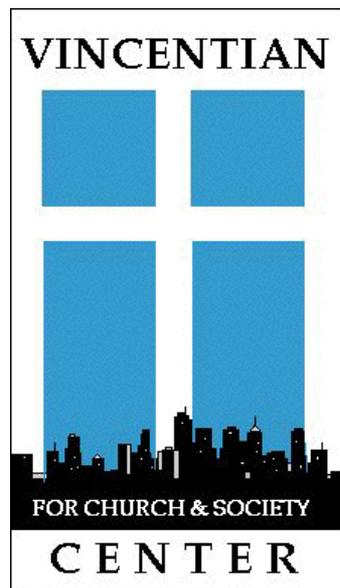


The Human Person and Money: Ethical Foundations for a Modern Monetary Economy

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Purpose

The main purpose of my talk will be to provide an economic defense of Pope Francis's ethical critique of an "economy of exclusion," "financial system that rules rather than serves" and "the new Idolatry of Money"

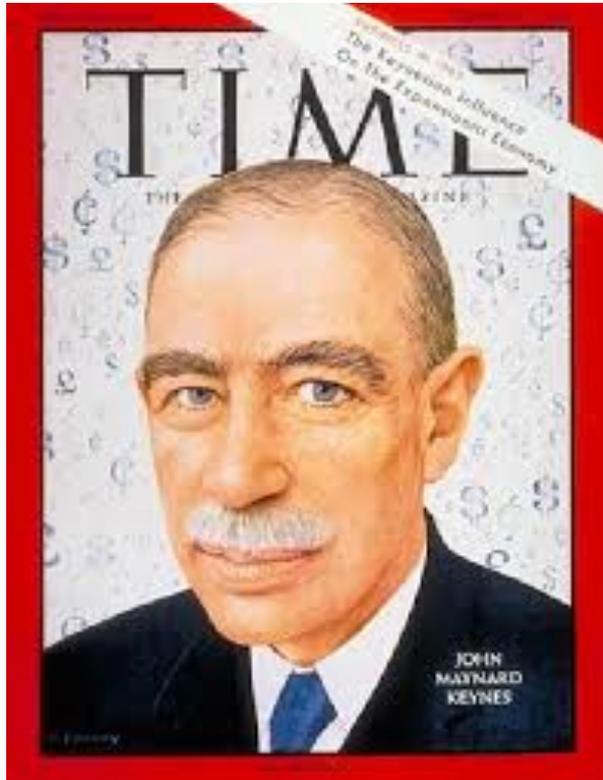
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Outline

- 1. Ethics is a fundamental part of economic analysis and activity.
- 2. Ethics enters into economics thru the “vision” of a “just economy” (especially how you define human person)
- 3. The view of human person in neoclassical economic theory (homo economicus) contributed to the inability of economists to foresee the financial crisis.
- 4. Broader view of human person allows for a more accurate view of economy and money

Ideas and Ideals Matter



- “The ideas of economists and political philosophers, both when they are **right** and when they are **wrong** are more powerful than is commonly understood. Indeed, the world is ruled by little else.”

John Maynard Keynes

We cannot understand economic (or any human) activity without ethics.

- Economic actions are about choices and goals (individual and collective), choice requires a criteria for choosing, goals an end to strive towards.
- All human actions take place in an historical and social context: rules and rights, institutions and power.
- Economic action involves cooperation with others, which requires shared values.
- Market exchange is built upon a foundation of *trust, confidence and fairness*. Without this, market exchange becomes inefficient (high transaction costs).
- All social theory (including economics) is built upon value judgements (ethics) and a philosophical anthropology, ***which come from the higher disciplines of THEOLOGY and PHILOSOPHY.***
(Newman)

All Economic Theories start with a “Vision” of a “Just Economy”

- Every economic theory is “normative”, built upon a foundation of value judgements. (Myrdal)
 - Interests
 - Ideology
 - Vision
- The “vision” gives the theorist a perspective and core concepts that economic analysis needs but cannot provide:
- Specifically, it answers the questions:
 - What is human nature?
 - What is society?
 - What is the value human’s pursue?
- Answers come from Philosophy and Theology

“The economy needs ethics in order to function correctly — not any ethics whatsoever, but an ethics which is people-centered” (CV 45) Benedict XVI

- A “people-centered” ethics asks three questions:
 1. What does the economy do *for* people?
 2. What does the economy do *to* people?
 3. And how do people *participate* in the economy?
- The key to “people-centered” ethics is the recognition of each persons dignity and social nature. It is a rejection of individualism.

What is Money?

- What is Money?
 - Money is what money does. (Common answer). Problem is money does many things and if you focus on only one aspect, you get a distorted understanding.
- Money as a Medium of Exchange
 - Neoclassical economists (based on their individualistic perspective) emphasize this aspect of money, and thus treat money as just another commodity. Money is only a Veil.
- Money as a Unit of Account and Store of Value
 - Keynes (and history) emphasize that money is a unit of account established by the State, and credit/debt imposed by the State. This recognizes its social nature.

Creation and Redemption

- While almost anything can be accepted as money (even bitcoins), the dominant money is always what the State creates (by spending), imposes as an obligation/debt (taxes and fines) and then accepts back the money they created as a redemption (repayment of debt).
- Recognizing this is the beginning of understanding a Modern Monetary Economy.

“No to a financial system that rules rather than serves” Pope Francis

Financial System = Finance, Insurance and Real Estate (FIRE)

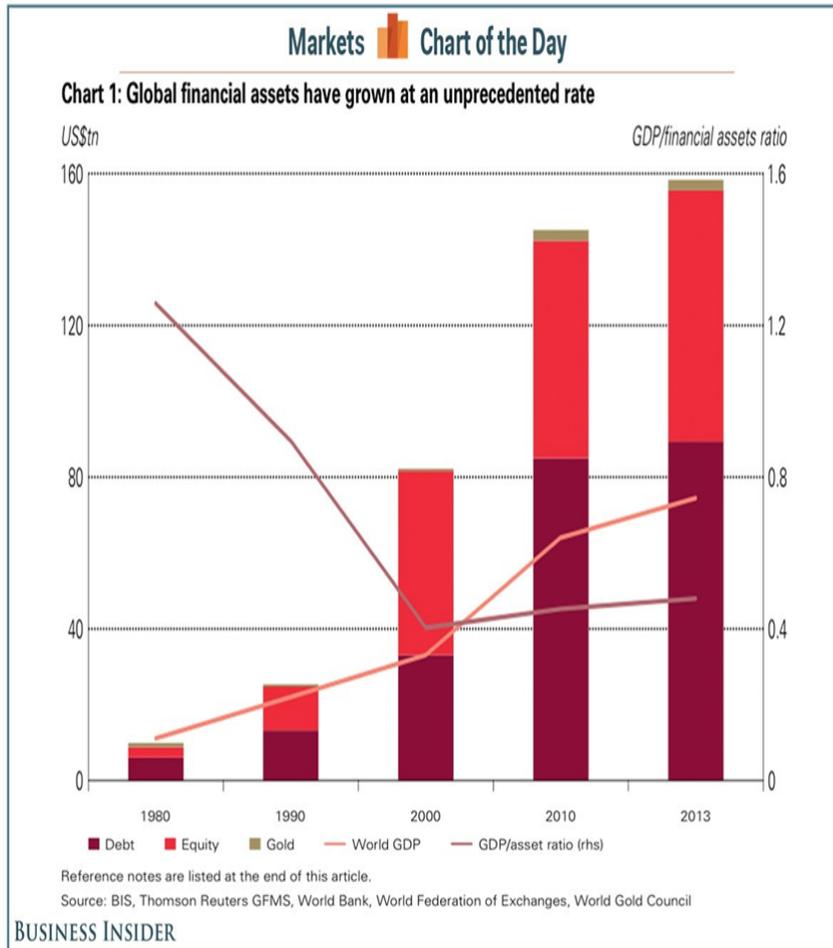
Three Basic Functions of Financial System

- Lending (Lenders ↔ Borrowers)
- Structure and Operation of payments system
- Risk Trading

Finance is a Service Industry, like Trucking.

Income earned by finance is supposed to come from the surplus created by real economy, which it earns by efficiently allocating capital to promote real wealth creation.

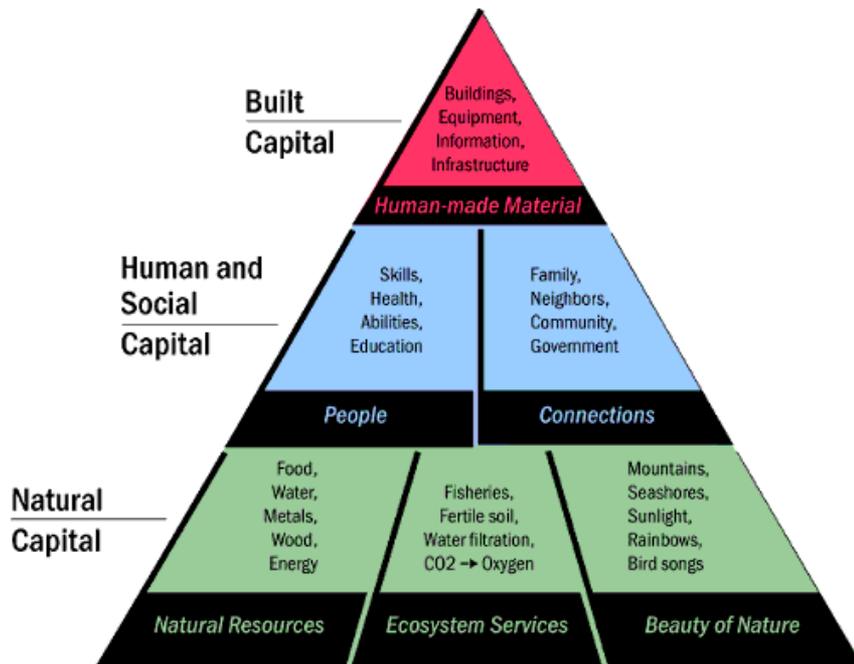
Too Much Financial Wealth



- Wealth consists of assets that should promote economic growth.
- The return to capital should come from a share of the increase in output, but the share has grown much faster than increase in output, leading to a redistribution of income from bottom 90% to 1%.
- Less productive uses of capital causes money managers to look for higher risk/return investments (speculation & fraud).

Wealth Creation vs Wealth Capture

Real Wealth



Artificial Capture

- Shifting income rather than increasing output or well-being
- Often using Force and Fraud
- Creates wealth by exclusion; creating scarcity and shifting

Wealth Capture Run Amuck

- Effects of Financialization
 - Transfer of income from real economy to financial sector
 - Increase in Financial wealth requires equal increase in debt
 - Decline in Wages as a Share of Income
 - Speculation, Instability and Endless Bubbles: Housing; Food and Energy
 - Rise in Inequality



Why economists didn't see the Financial meltdown coming?

- If you start with the autonomous individual view of human person and the assumption that markets are necessarily efficient, then you will ignore the use of force and fraud to benefit the few at the expense of the many.
- Most economist didn't see the financial meltdown coming because it was outside their theoretical framework. It was outside their framework ultimately because they ignore the social nature of human person.

“No to the new Idolatry of Money”

Pope Francis

- New Idolatry of Money is replacing our obligations for society, the common good, the poor, and creation with love of money. It is following the ethics of individualism with the faith that the market will turn “private vice into public virtue.” Yet their idea of public virtue is material wealth.
- Happiness and human flourishing comes from relationships and community, or as John Paul II often said, giving ourselves in love to others.

Conclusion

- Better understanding of the economy starts with better understanding of what it means to be human.
- Happiness and human flourish comes from social relations, being in community. Individualism as an ideology is a rejection of human flourishing.
- Ignoring the link between money and the state always causes bad outcomes.