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# Pope Francis, *Evangelii Gaudium*, and American Capitalism

Kris Principe, Ph.D.

## Introduction

His Excellency's writing of both *Evangelii Gaudium* (*Joy of the Gospel*) and *Laudato Si'* (*On Care For Our Common Home*) has led several in the popular press to comment on the Pope's distrust of capitalism. For example, Barnidge (2016, March 11), writing for *Forbes*, states "*Evangelii Gaudium* calls for structural transformation ... The pope's 2015 encyclical, *Laudato Si'*, proceeds along similar lines, protesting the pursuit of profit and implying that the intentional creation of wealth of necessity oppresses and debases." Similarly, Schmalz (2015, September 20), in *Fortune*, writes, "Pope Francis has famously described the unrestrained pursuit of profit as 'the dung of the devil.'" This paper will attempt to reconcile the pope's commentary with the American perspective on capitalism. Section I organizes the pope's writing on capitalism in *Evangelii Gaudium* into three central themes and responds to these concerns using the work of Milton Friedman, of the most prominent modern American economists. Section II uses data from the Index of Economic Freedom and the World Bank World Development Indicators to empirically investigate specifically the pope's statement in paragraph 54 that "... some people continue to defend trickle-down theories which assume that economic growth, encouraged by a free market, will inevitably succeed in bringing about greater justice and inclusiveness in the world. This opinion, which has never been confirmed by

the facts..." (Francis, 2013). Section III explores the evolution of capitalism in the United States during the late 1700s-early 1800s and uses the role of slavery during this time period to illustrate that morality is not inherently imbedded in any economic system. Rather, morality must come from the participants within the system. Section IV concludes.

## Milton Friedman and Pope Francis

Table 1 groups the pope's writing on capitalism in *Evangelii Gaudium* into three overarching themes: 1. Equality and inclusion; 2. The role of personal responsibility for both fellow humans as well as the environment; and 3. Excessive consumerism. This section looks at these three themes from the perspective of Milton Friedman using his book, *Free to Choose: A Personal Statement*, written with his wife, Rose. Friedman was born in Brooklyn, New York, to parents who came to the US from Austria-Hungary, and spent 35 years teaching at the University of Chicago. Although he won the 1976 Nobel Prize in Economics for his contributions in monetary policy, he "...also wrote extensively on public policy, always with a primary emphasis on the preservation and extension of individual freedom" (Hoover Institute, n.d.). This focus on individual freedom, including the protection of private property rights, has been reflected in the United States since her inception (Pecorella, 2008).

**Table 1: Friedman Perspective on *Evangelii Gaudium***

| Theme                         | Representative Statements from <i>Evangelii Gaudium</i>   | Milton Friedman Perspective from <i>Free to Choose</i>  |
|-------------------------------|---|---|
| <b>Equality and Inclusion</b> | "Today everything comes under the laws of competition and the survival of the fittest, where the powerful feed upon the powerless. As a consequence, masses of people find themselves excluded and marginalized: without work, without possibilities, without any means of escape." (53)  | "This is an imperfect world, so competition does not provide complete protection. However, competition is the best or, what is the same thing, the least bad, protection for the largest number of workers that has yet to be found or devised. The role of competition is a feature of the free market that we have encountered time and time again. A worker is protected from his employer by the existence of other employers for whom he can work. An employer is protected by exploitation by his employees by the existence of other workers whom he can hire." (p. 246) |
|                               | "[S]ome people continue to defend trickle-down theories which assume that economic growth, encouraged by a free market, will inevitably succeed in bringing about greater justice and inclusiveness in the world. This opinion, which has never been confirmed by the facts, expresses a crude and naïve trust in the goodness of those wielding economic power and in the sacralized workings of the prevailing economic system." (54) | "Wherever the free market has been permitted to operate, wherever anything approaching equality of opportunity has existed, the ordinary man has been able to attain levels of living never dreamed of before. Nowhere is the gap between rich and poor wider, nowhere are the rich richer and the poor poorer, than in those societies that do not permit the free market to operate." (p. 146)  |
|                               | "While the earnings of a minority are growing exponentially, so too is the gap separating the majority from the prosperity enjoyed by those happy few. This imbalance is the result of ideologies which defend the absolute autonomy of the marketplace and financial speculation. Consequently, they reject the right of states, charged with vigilance for the common good, to exercise any form of control." (56)                    | "A society that puts equality – in the sense of equality of outcome-ahead of freedom will end up with neither equality nor freedom. ... On the other hand, a society that puts freedom first will ... end up with both greater freedom and greater equality. ... A free society ... does not prevent some people from achieving positions of privilege but so long as freedom is maintained, it prevents those positions of privilege from becoming institutionalized." (p. 148)  |

**Table 1, continued: Friedman Perspective on *Evangelii Gaudium***

| Theme                          | Representative Statements from <i>Evangelii Gaudium</i>  | Milton Friedman Perspective from <i>Free to Choose</i>  |
|--------------------------------|--|---|
| <b>Personal Responsibility</b> | "In this system, which tends to devour everything which stands in the way of increased profits, whatever is fragile, like the environment, is defenseless before the interests of a deified market, which become the only rule." (56)  | "The preservation of the environment and the avoidance of undue pollution are real problems ... Unfortunately, the very factors that produce the market failure also make it difficult for government to achieve a satisfactory solution. ... Attempts to use government to correct market failure have often simply substituted government failure for market failure." (p. 214)   |
|                                |  | "In the case of pollution, the devil blamed is typically 'business,' ... In fact, the people responsible for pollution are consumers, not producers. ... If we want to have electricity with less pollution, we shall have to pay, directly or indirectly, a high enough price for the electricity to cover the extra costs. Ultimately, the cost of getting cleaner air, water, and all the rest must be borne by the consumer. There is no one else to pay for it. Business is only an intermediary, a way of coordinating the activities of people as consumers and producers." (pp. 215-216)                  |
|                                | "Almost without being aware of it, we end up being incapable of feeling compassion at the outcry of the poor, weeping for other people's pain, and feeling a need to help them, as though all this were someone else's responsibility and not our own." (54)   | "There is no inconsistency between a free market system and the pursuit of broad social and cultural goals, or between a free market system and compassion for the less fortunate, whether that compassion takes the form as it did in the 19 <sup>th</sup> century, of private charitable activity, or, as it has done increasingly in the 20 <sup>th</sup> , of assistance through government. ..." (p. 140 )   |
|                                | "Ethics has come to be viewed with a certain scornful derision. It is seen as counterproductive, too human, because it makes money and power relative. It is felt to be a threat, since it condemns the manipulation and debasement of the person. In effect, ethics leads to a God who calls for a committed response which is outside the categories of the marketplace." (57) | "Economics has been berated for allegedly drawing far-reaching conclusions from a wholly unrealistic 'economic man' who is little more than a calculating machine, responding only to monetary stimuli. That is a great mistake. Self-interest is not myopic selfishness. It is whatever it is that interests the participants, whatever they value, whatever goals they pursue. ... the missionary seeking to convert infidels to the true faith, the philanthropist seeking to bring comfort to the needy- all are pursuing their interests, as they see them, as they judge them by their own values." (p. 27) |

**Table 1, continued: Friedman Perspective on *Evangelii Gaudium***

| Theme                        | Representative Statements from <i>Evangelii Gaudium</i>  | Milton Friedman Perspective from <i>Free to Choose</i>   |
|------------------------------|--|--|
| <b>Excessive Consumerism</b> | "The culture of prosperity deadens us; we are thrilled if the market offers us something new to purchase; and in the meantime all those lives stunted for lack of opportunity seem a mere spectacle; they fail to move us." (54) | "The key insight of Adam Smith's <i>Wealth of Nations</i> is misleadingly simple; if and exchange between two parties is voluntary, it will not take place unless both believe they will benefit from it." (p.13)                                |
|                              | "The thirst for power and possessions knows no limits." (56)   |  |
|                              | "Today's economic mechanisms promote inordinate consumption, yet it is evident that unbridled consumerism combined with inequality proves doubly damaging to the social fabric." (60)  | "A society's values, its culture, its social conventions—all these develop in the same way, through voluntary exchange, spontaneous cooperation, the evolution of a complex structure through trial and error, acceptance and rejection." (p.26) |

### Equality and Inclusion

In order to determine which economic system best promotes equality and inclusion, one needs to specify which type of equality is being sought. Friedman and Friedman define three types of equality: equality before God, equality of opportunity and equality of outcome, noting that the policy goal regarding equality in the US has evolved since the founding of the country. He states that the founding fathers, in the Declaration of Independence, envisioned equality before God:

Men were equal before God. Each person is precious in and of himself. He has unalienable rights, rights that no one else is entitled to invade. He is entitled to serve his own purpose and not to be treated simply as an instrument to promote someone else's purposes. (Friedman & Friedman, 1990, p. 129)

Similarly, the pope is promoting equality before

God when he declares:

Human beings are themselves considered consumer goods to be used and then discarded. We have created a 'throw away' culture which is now spreading... those excluded are no longer society's underside or its fringes or its disenfranchised – they are no longer even a part of it. The excluded are not the 'exploited' but the outcast, the 'leftovers.' (Francis, 2013, para. 53).

Friedman and Friedman (1990) remark that after the Civil War and the abolishment of slavery, a shift began in the US "in intellectual discussion and in government and private policy" toward equality of opportunity" (p. 131). Note that this does not mean that everyone would have identical opportunities, but rather, "[n]ot birth, nationality, color, religion, sex, nor any other irrelevant characteristic should determine the opportunities that are open to a person, only his abilities. ...

There were to be no arbitrary obstacles” (pp. 132-133). Furthermore, they comment that the description of America as a “melting pot reflected the goal of equality of opportunity” (p. 132). Friedman and Friedman do acknowledge, however, that “Like every ideal, equality of opportunity is incapable of being fully realized. The most serious departure was undoubtedly with respect to the blacks, particularly in the South but in the North as well” (p. 132).

Pursuing equality of opportunity would be consistent with the policy goal of horizontal equity. Horizontal equity reflects the view that “people in similar circumstances should be treated equally” (Black, Hashimzade & Myles, 2009). Pope Francis advocates for the equality of opportunity when he admonishes, “masses of people find themselves excluded and marginalized: without work, without possibilities, without any means of escape” (2013, para. 53). Here, the “similar circumstances” are being a member of the human family.

Friedman and Friedman (1990) remark that more recently, the US has been more focused on equality of outcome, with which he views not only as a violation of personal freedom, but also a policy goal that has unintended negative consequences:

If all are to have “fair shares,” someone or some group of people must decide what shares are fair—and they must be able to impose their decisions on others, taking from those who have more than “fair” shares and giving to those who have less. Are those who make and impose such decisions equal to those for whom they decide?... In addition, if what people get is determined by “fairness” and not by what they produce, where are the “prizes” to come from? What incentive is there to work and produce? (p. 135)

Pope Francis (2013) calls for a movement toward greater equality of outcome both here: “[S]ome people continue to defend trickle-down theories which assume that economic growth, encouraged by a free market, will inevitably succeed in bringing about greater justice and inclusiveness in the world” (para. 54), and here: “While the

earnings of a minority are growing exponentially, so too is the gap separating the majority from the prosperity enjoyed by those happy few” (para. 56). In addition, Francis seems to support increased government intervention as a vehicle to increase equality when he writes:

While the earnings of a minority are growing exponentially, so too is the gap separating the majority from the prosperity enjoyed by those happy few. This imbalance is the result of ideologies which defend the absolute autonomy of the marketplace and financial speculation. Consequently, they reject the right of states, charged with vigilance for the common good, to exercise any form of control. (para. 56)

The pope and Friedman and Friedman seem to disagree about the impact of equality of outcome as a policy goal. Friedman and Friedman (1990) argue that enacting policies to achieve equality of outcome inevitably fail due to the inherent conflict between:

...the ideal of “fair share”...and the ideal of personal liberty. This conflict has plagued every attempt to make equality of outcome the overriding principle of social organization. The end result has invariably been a state of terror... And not even terror has equalized outcomes. In every case, wide inequality persists by any criterion; inequality between the rulers and the ruled, not only in power, but also in material standards of life. (p. 135)

Friedman and Friedman (1990) go on to explain: A society that puts equality – in the sense of equality of outcome—ahead of freedom will end up with neither equality nor freedom. ... On the other hand, a society that puts freedom first will ... end up with both greater freedom and greater equality. (p.148)

Moreover, Friedman and Friedman (1990) remind us that to Thomas Jefferson, “the government’s role was as an umpire, not a participant” (p.4). He reinforces this point by quoting Jefferson’s first inaugural address in 1801, in which Jefferson stated, “[a] wise and frugal government, which

shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement” (p. 4).

N. Gregory Mankiw (2013), an American macroeconomist, explains the difficulties in designing policies to achieve income equality, namely the tradeoff between equality and economic efficiency, which depends on the elasticity of labor supply. He further notes the difficulty of incorporating heterogeneous preferences into an optimal policy of income redistribution. Related to this issue is the fact that economists have not yet solved the interpersonal comparability of utility problem. He observes:

Perhaps advances in neuroscience will someday lead to an objective measure of happiness, but as of now, there is no scientific way to establish whether the marginal dollar consumed by one person produces more or less utility than the marginal dollar consumed by a neighbor. (2013, p. 28)

Moreover, he also comments that it is necessary to identify the cause of growing income inequality before crafting an appropriate policy response. He distinguishes between growing income inequality due to inefficient rent-seeking versus growing income inequality because of an increased demand for skilled labor that is increasing more rapidly than the supply of skilled labor (Mankiw, 2013). Presumably, Pope Francis is referring to the former.

Yuengert (2017), however, provides some context for the pope’s remarks. First, he observes that Francis’ statements regarding a market economy are not that inconsistent with those of his predecessors:

When Francis is read in light of his predecessors’ analysis and concerns, his own survey of the economic terrain can be seen to follow in paths they laid. Paul VI, John Paul II, and Benedict XVI developed an account of development in which markets can serve as an outlet for creative human agency in promoting the efficient provision of goods. Markets cannot, however, be

left to function without the constraints of a healthy culture and a government able to place markets at the service of the common good. All three popes warned that markets should not be allowed to function autonomously, and, if unchecked, markets might undermine both culture and politics. Where his predecessors warned of the danger that markets might overrun culture and political control, Francis asserts that they have in fact done so. As a result, he pays less attention to the role of markets in a healthy social order and more attention to their bad effects in an unhealthy social order. (pp. 348-349)

He goes on to caution us, moreover, that Francis’ statements must be interpreted within the context of his background:

Francis is also a citizen of Argentina—a country that is without political institutions capable of putting the economy at the service of the common good and that instead uses and is used by business and political interests to increase the power of business and political elites. It is a prime example of how crony capitalism and statist control of the economy can wreck a country that deserves better. It is thus not surprising that a pope from this part of the world emphasizes the dangers of markets over their potential contributions. (Yuengert, 2017, p. 355)

Gregg (2017), providing a very detailed summary of Argentinian economic history, explains that this distrust of markets is still quite pervasive within the region:

Neoliberalismo, as free-market economics is called in Latin America, continues to carry very negative connotations in Argentina across all sectors of society, including the Catholic Church. One may dispute, of course, the accuracy of this understanding of the nature of a free-market economy and economic globalization. What is not in doubt is that this negative view is the image of market economies that prevails in much

of Latin America and among many Latin American Catholics. (p. 366)

### Personal Responsibility

In *Evangelii Gaudium* (2013) the pope appears to imply that morality cannot exist within an economic system when he states, “In this system, which tends to devour everything which stands in the way of increased profits, whatever is fragile, like the environment, is defenseless before the interests of a deified market ... ” (para. 56). He continues, “In effect, ethics leads to a God who calls for a committed response which is outside the categories of the marketplace” (para. 57). Friedman and Friedman (1990) take a differing perspective, noting that voluntary exchange coordinates more than just economic activity:

Self-interest is not myopic selfishness. It is whatever it is that interests the participants, whatever they value, whatever goals they pursue. ...the missionary seeking to convert infidels to the true faith, the philanthropist seeking to bring comfort to the needy- all are pursuing their interests, as they see them, as they judge them by their own values. (p. 27)

More recently, Bhagwati (2011), consistent with Friedman and Friedman, also argues that markets, in which individuals pursue their own self-interest, do not undermine morality. Rather, he acknowledges that while “...markets will influence values...more importantly, the values we acquire elsewhere determine how we behave in the marketplace” (p. 163). Moreover, “these values are values come from our families, communities, schools, churches, and indeed from our religion and literature” (p. 164). In other words, personal virtue and ethical behavior are elements in an individual’s utility function.

Friedman and Friedman (1990) further comment: There is no inconsistency between a free market system and the pursuit of broad social and cultural goals, or between a free market system and compassion for the less fortunate, whether that compassion takes the form as it did in the 19th century, of private charitable activity, or, as it has

done increasingly in the 20th, of assistance through government. ...” (p. 140)

Friedman and Friedman (1990) go on to provide examples from Chicago during 1880-1917 when both privately funded cultural and charitable organizations emerged. In addition, Friedman and Friedman are not opposed to governmental provision of a safety net, funded with taxpayer revenue, but emphasize that such government assistance should be used to achieve equality of opportunity rather than equality of outcome, noting that there is a difference between “90 percent of us agreeing to impose taxes on ourselves to help the bottom 10 percent and... 80 percent voting to impose taxes on the top 10 percent to help the bottom 10 percent...” (p. 140).

In the United States, business has continued their role in charitable activity. Preston (2016, June 22) recently wrote an article in *Fortune* identifying the “20 Most Generous Companies of the Fortune 500.” This list included Walmart, Coca Cola, and General Mills. Coca Cola, consistent with pope’s goal of inclusiveness and his concern for the environment, works with the Global Environment and Technology Foundation in Africa to replenish water sources and improve access to safe drinking water. General Mills works with Partners in Food Solutions, so that small processors in Africa can produce high-quality, safe food. Walmart works with the anti-hunger charity Feeding America, not only by donating food but also by providing refrigerated trucks and logistics expertise. As access to food and water are basic human rights, it is important to note that such actions meet the challenge of Pope Benedict in *Caritas in Veritate* (2009) where he writes:

Charity goes beyond justice, because to love is to give, to offer what is “mine” to the other; but it never lacks justice, which prompts us to give the other what is “his”, what is due to him by reason of his being or his acting. I cannot “give” what is mine to the other, without first giving him what pertains to him in justice. (para. 6)

These corporate efforts complement those of individuals such as Bill and Melinda Gates (and

Warren Buffett who gave a large donation to their foundation), for whom the pope's (2013) admonition in paragraph 54 certainly does not apply. Indeed, echoing the concerns in *Evangelii Gaudium*, the home page on the Gates' website reads, "All lives have equal value: We are impatient optimists working to reduce inequity" (Bill and Melinda Gates Foundation, n.d.). Their efforts to improve education and nutrition in the US as well as their work to help women and girls internationally to escape poverty, seeks to achieve equality of opportunity. It is important to emphasize that the ability of Gates and Buffett to donate arose out of the private creation of wealth, which contributes to the common good. "...the creation of surplus permits the exercise of 'gift of self' which to John Paul II serves as the baseline of the common good through the Christian message of charity as love of neighbor" (Pecorella, 2008, p. 257).

Wealth creation may also create a "multiplier effect" with regard to "gift of self." Perman (2001, June 24), writing about Coca-Cola CEO, Roberto C. Goizueta, upon his death, noted that during his tenure as CEO, Coke's stock market value increased from \$4 billion to roughly \$145 billion. As a result of this increase in value, both institutions and individuals owning Coke stock were able to more fully exercise the "gift of self." Tamny (2017, February 5) tells how as the stock price rose, so too did the value of Emory University's endowment, allowing the institution to provide more need-based scholarships. He also shares the story of an Atlanta pediatrician named Bill Warren who as a result of the increased value of his Coke stock during the Goizueta era, retired, sold his practice, and devoted his time to helping poor Atlanta families with their medical needs.

Moreover, there is a growing trend in the United States on the part of private foundations to help achieve equality of opportunity through increased educational access. The Gates Millennium Scholars Program has awarded scholarships totaling \$934 million since its inception in 1999 to African American, American Indian/Alaska Native, Asian Pacific Islander American, and Hispanic

American students (Gates Millennium Scholars Program, n.d.). QuestBridge works to facilitate a pathway for low-income youth to the nation's top universities stating "America has an undiscovered population of talented low-income youth. Some of our brightest young minds are well-suited to opportunities, but unconnected for simple lack of information, mentorship, and other surmountable barriers" (QuestBridge, n.d.).

Perhaps reflecting these corporate and individual US efforts, in his speech before Congress in 2015, Francis appeared to be less critical of capitalism specifically, but put a greater emphasis on personal responsibility. Williams (2016, September 21) noted that prior to his visit to the US, the pope, sensitive to the criticism that many Americans took his statements in *Joy of the Gospel* as a criticism of the "American way of life," had promised to "study up on American life." Williams, goes on to write:

In the fight against poverty, Francis said, it "goes without saying that part of this great effort is the creation and distribution of wealth. The right use of natural resources, the proper application of technology and the harnessing of the spirit of enterprise are essential elements of an economy which seeks to be modern, inclusive and sustainable.

"Business is a noble vocation," the pope continued, "directed to producing wealth and improving the world. It can be a fruitful source of prosperity for the area in which it operates, especially if it sees the creation of jobs as an essential part of its service to the common good." (para. 7-8)

Bobic (2015, September 24) also noted the call for personal responsibility in the pope's address to Congress. In his article about the visit, he accentuates the following quote by the pontiff:

"At the same time I would encourage you to keep in mind all those people around us who are trapped in a cycle of poverty," he added. "They too need to be given hope. The fight against poverty and hunger must be fought constantly and on many fronts,

especially in its causes. I know that many Americans today, as in the past, are working to deal with this problem.” (para. 3)

US Cardinal Timothy Dolan (2014, May 23) further emphasizes that this call for virtue has long been consistent with Church teaching. Writing for the *Wall Street Journal* after a meeting between the pope and U.N. Secretary-General Ban Ki-moon in May of 2014, the cardinal remarks:

The church has consistently rejected coercive systems of socialism and collectivism, because they violate inherent human rights to economic freedom and private property. When properly regulated, a free market can certainly foster greater productivity and prosperity. But, as the pope continually emphasizes, the essential element is genuine human virtue. The church has long taught that the value of any economic system rests on the personal virtue of the individuals who take part in it, and on the morality of their day-to-day decisions. (p. A13)

Reflective of these words, the United States has ranked second in the 2016 *World Giving Index* for the past five years. This index measures individual generosity, using survey data from approximately 140 countries which focuses on three areas: helping a stranger, donating money to a charity and volunteering time to an organization (Charities Aid Foundation, October 2016).

### **Excessive Consumerism**

In a market economy, consumer sovereignty determines what goods and services will be produced. Francis (2013) cautions against excessive consumerism when he states, “The thirst for power and possessions knows no limits” (para. 56). Others have commented that US consumption can be excessive as well. Pecoralla (2008) remarks:

As Catholics in the United States have increasingly joined the middle and upper-middle classes of American life, the amount of resources they control have, by definition, increased. ... [This] greater economic success generates greater social responsibility. It may well be past time for the Catholic

hierarchy in the United States to move beyond broad statements of social justice to more operationally clear assertions of what exactly should be expected within the Catholic community, i.e., what commutative and contributive justice entail, by defining not just economic “floors” beneath which human beings should not be allowed to fall, but economic “ceilings” which define the point when people “of good faith” simply have enough. (p. 276)

Francis and Friedman and Friedman appear to disagree regarding the meaning of a transaction in a market economy. Friedman and Friedman (1990) stress that in a market economy “...if an exchange between two parties is voluntary, it will not take place unless both believe they will benefit from it” (p.13). In contrast, Francis (2013) writes “we are thrilled if the market offers us something new to purchase” (para. 56). Whaples (2017) emphasizes that Francis continues to admonish excessive consumerism even more strongly in *Laudato Si'*, where “Francis argues that this excessive self-destructive consumption on the part of the rich is partly the fault of the markets” (p. 331). The pope’s mistrust of markets is reflected in the following statements from the 2015 encyclical:

Since the market tends to promote extreme consumerism in an effort to sell its products, people can easily get caught up in a whirlwind of needless buying and spending. (Francis, 2015, para. 203)

Many people know that our current progress and the mere amassing of things and pleasures are not enough to give meaning and joy to the human heart, yet they feel unable to give up what the market sets before them. (Francis, 2015, para. 209)

These statements ignore the concept of consumer sovereignty which states that the market will only produce a product if there is demand and a willingness to pay that exceeds the costs of production, which includes the implicit cost of a normal profit. Indeed, the linkage between consumer sovereignty and personal responsibility is well established in Catholic social teaching

as explained by Principe and Eisenhauer (2012). Similarly, Benestad (2011) emphasizes the following quote from Pope John Paul II, in *Centesimus Annus*:

[A]n economic system provides a framework for economic activity, but doesn't offer guidance to people about what to produce and what to consume... The family, Church, and the institutions of civil society must create a culture and provide the kind of education that save people from destructive economic choices. (p. 319)

Friedman and Friedman (1990) also acknowledge that market activity will not take place in a vacuum, stressing that "A society's values, its culture, its social conventions—all these develop in the same way, through voluntary exchange, spontaneous cooperation, the evolution of a complex structure through trial and error, acceptance and rejection" (p. 26). Recently the tiny house movement provides an example of this evolution. The growing popularity of tiny houses, actually addresses all three of the pope's broad concerns in *Evangelii Gaudium*. Ford and Gomez-Lanier (2017) observe that

...the tiny house has been brought forward by its proponents as a solution to environmental wastefulness. The original intent of the tiny house movement was to present an alternative to man's unnecessarily excessive consumption and destruction of the environment, as well as to introduce a more affordable path to home ownership. (p. 403)

Excessive consumerism also negatively impacts the environment. In agreement with the pope, Friedman and Friedman (1990) acknowledge that "The preservation of the environment and the avoidance of undue pollution are real problems..." (p. 214) stemming from market failure. In several paragraphs of *Laudato Si'*, Francis (2015) appears to acknowledge the existence of a negative externality with regard to production that harms the environment:

Production is not always rational, and is usually tied to economic variables which

assign to products a value that does not necessarily correspond to their real worth. This frequently leads to an overproduction of some commodities, with unnecessary impact on the environment. (para. 189)

Businesses profit by calculating and paying only a fraction of the costs involved. (para. 195)

Both Friedman and Friedman (1990) and the pope acknowledge the existence of government failure with regard to correcting the negative externality of pollution. However, Friedman and Friedman do so more forcefully than the pope, stating "Attempts to use government to correct market failure have often simply substituted government failure for market failure" (p. 214). In *Laudato Si'* (2015) Pope Francis seems to allude to the possibility of government failure:

Often, politics itself is responsible for the disrepute in which it is held, on account of corruption and the failure to enact sound public policies. If in a given region the state does not carry out its responsibilities, some business groups can come forward in the guise of benefactors, wield real power, and consider themselves exempt from certain rules... (para. 197)

However, Yuengert (2017) comments, regarding this section of the encyclical, that "...even the corruption of government he attributes to powerful business interests that foster and then take advantage of this corruption" (p. 356).

Furthermore, consistent with the pope's call for personal responsibility, Friedman and Friedman (1990) explicitly link personal responsibility with environmental prudence:

... the people responsible for pollution are consumers, not producers. They create, as it were, a demand for pollution. ... If we want to have electricity with less pollution, we shall have to pay, directly or indirectly, a high enough price for the electricity to cover the extra costs. Ultimately, the cost of getting cleaner air, water, and all the rest must be borne by the consumer. There is

no one else to pay for it. Business is only an intermediary, a way of coordinating the activities of people as consumers and producers. (pp. 215-216)

The role of personal responsibility with regard to the environment is also established in the principles of Catholic social teaching (CST). Principe and Eisenhauer (2012) comment that:

In addition to making healthy, life-affirming consumption choices that drive what is produced, CST suggests that consumers can influence how goods are produced. The Compendium of the Social Doctrine of the Church builds on *Centesimus annus* by calling for Catholics to use their power of consumer sovereignty to promote the common good. (p. 83)

According to the *Compendium of the Social Doctrine of the Church*:

Purchasing power must be used in the context of the moral demands of justice and solidarity, and in that of precise social responsibilities. ... This responsibility gives to consumers the possibility, thanks to the wider circulation of information, of directing the behaviour of producers, through preferences—individual and collective—given to the products of certain companies rather than to those of others, taking into account not only the price and quality of what is being purchased but also the presence of correct working conditions in the company as well as the level of protection of the natural environment in which it operates. (Pontifical Council for Justice and Peace, 2004, June 29, §359)

This section compared the writings of Pope Francis and the Friedmans regarding the themes of equality and inclusion, the role of personal responsibility for both fellow humans as well as the environment, and excessive consumerism. It is important to realize, however, that with regard to these themes, it is only the first which is impacted by an economic system. In contrast, the latter

two are independent of an economic system, as they reflect the virtue of the individual operating within an economic system. Therefore, with regard to the desirability of a particular system, one must ask which is most likely to bring about the greatest degree of equality and inclusion. Section II provides an empirical analysis of this question.

## Empirical Analysis

Francis (2013) indicates his distrust of capitalism when he states:

...some people continue to defend trickle-down theories which assume that economic growth, encouraged by a free market, will inevitably succeed in bringing about greater justice and inclusiveness in the world. This opinion, which has never been confirmed by the facts expresses a crude and naïve trust in the goodness of those wielding economic power and in the sacralized workings of the prevailing economic system. (para. 54)

Such “trickle-down theories” are also referred to, more formally, as supply-side economics. Feldstein (1986) explains that this term is often misunderstood and used in a polarizing fashion, but observes that originally it merely referred to an alternative method to stimulate economic growth, in contrast to Keynesian theory which focused on the stimulation of aggregate demand. He clarifies:

... much of our supply-side economics was a return to basic ideas about creating capacity and removing government impediments to individual incentive that were central in Adam Smith’s *Wealth of Nations* and in the writings of the classical economists of the nineteenth century. The experience of the 1930’s had temporarily made it easy to forget the importance of the supply factors, but by the 1970’s they were returning to the mainstream of economics. (p. 26)

This section assumes that this definition, which Feldstein (1986) calls the “traditional supply-side emphasis,” is what the pope is referring to when he uses the term “trickle-down theories,” and therefore, empirically tests if a market based

economy is more likely to meet the pope's goals of equality and inclusion. The analysis uses the 2017 Index of Economic Freedom, calculated annually by the Heritage Foundation since 1995. The Index is calculated using data from four areas: rule of law, government size, regulatory efficiency, and the degree of market openness. 186 countries are ranked and grouped into five categories: free, mostly free, moderately free, mostly unfree and repressed. The resulting ranking reveals that the vast majority of countries are not free. In 2017, only 18.9% earn a score sufficiently high to be considered "mostly free" or "free." 48.9% are "repressed" or "mostly unfree. Indeed, the 2017 country average of 60.9 is barely in the "moderately free" category which ranges from 60 to 69.9.

The foundation provides the following definition on their website: "Economic freedom is the fundamental right of every human to control his or her own labor and property. In an economically free society, individuals are free to work, produce, consume, and invest in any way they please. In economically free societies, governments allow labor, capital, and goods to move freely, and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself" (Heritage Foundation, n.d.). Pursuing economic freedom (a market economy as opposed to a government controlled economy) can facilitate achieving societal goals that are consistent with those stated by the pope. Miller and Kim state:

Economic freedom is at its heart about individual autonomy, concerned chiefly with the freedom of choice enjoyed by individuals in acquiring and using economic goods and resources. The underlying assumption of those who favor economic freedom is that individuals know their needs and desires best and that a self-directed life, guided by one's own philosophies and priorities rather than those of a government or technocratic elite, is the foundation of a fulfilling existence. Independence and self-respect flow from the ability and responsibility to take care of oneself and one's family and are

invaluable contributors to human dignity and equality. (p. 19)

Note that this quote reflects several major themes of Catholic social teaching, namely, the principles of "rights & responsibilities" and "the dignity of work & the rights of workers" (US Catholic Bishops, 1998). The bishops stress the importance of personal responsibility in the Right and Responsibilities section, stating "Every person has a fundamental right to life and a right to those things required for human decency. Corresponding to these rights are duties and responsibilities—to one another, to our families, and to the larger society." With regard to work, they stress that:

Work is more than a way to make a living; it is a form of continuing participation in God's creation. If the dignity of work is to be protected, then the basic rights of workers must be respected—the right to productive work, to decent and fair wages, to organize and join unions, to private property, and to economic initiative. (US Catholic Bishops, 1998)

In addition, economic freedom is also consistent with subsidiarity: "The Catholic way is to recognize the essential role and the complementary responsibilities of families, communities, the market, and government to work together to overcome poverty and advance human dignity" (US Catholic Bishops, 2002).

Table 2 looks at the macroeconomic performance of countries based on their level of economic freedom. There are three basic performance measures for an economy: GDP, unemployment and inflation. A focus on these indicators is consistent with Catholic social thought:

The distinctive terms of Catholic social thought- solidarity, subsidiarity, the common good, the preferential option for the poor- all derive from the worldview that says that economic life is meant to be in service of the human person. From that worldview once can further derive a concern that the aim should be for a society in which unemployment is low, wages are high, and poverty is reduced, if not eliminated.

(Hirschfeld, 2015, p. 142)

Whaples (2017) also emphasizes that Francis charges business with the role of job creation in *Laudato Si'*:

Pope Francis instead affirms that, “Business is a noble vocation, directed to producing wealth and improving our world. It can be a fruitful source of prosperity for the areas in which it operates, especially if it sees the creation of jobs as an essential part of its service to the common good.” (Francis, 2015, para. 129)

A low unemployment rate, therefore, can be viewed as a measure of inclusiveness, as can per capita GDP. A low stable inflation rate is also desirable to preserve purchasing power, especially for those individuals without the opportunity to acquire other assets to effectively hedge against inflation.

The results in Table 2 indicate that countries with a higher index score have stronger macroeconomic indicators. A single factor ANOVA analysis was performed for each macroeconomic indicator. The null hypothesis of equality between the five means was rejected for both GDP per capita and inflation (p-value = 0.0000 and p-value = 0.0004, respectively). Given this result, Fisher’s least significant difference (LSD) procedure was used to identify exactly where group differences occurred. For GDP per capita, the null hypothesis of equality for 8 pairs was rejected at the 5% level. For the comparison of GDP per capita between the “free” and “mostly free” categories, the null was rejected at a 10% significance level. The only

pair for which the null was not rejected was the comparison between the mean GDP per capita for the countries ranked as “mostly unfree” and “repressed.” This result indicates that GDP per capita is significantly higher as a country’s ranking increases from the level of “mostly unfree” and is consistent with Miller and Kim’s (2017) finding that the correlation coefficient between economic freedom and GDP per capita is .63. The inflation rate also differs by the level of economic freedom. Fisher’s LSD test revealed a significant difference (5%) between the mean inflation rates for the following categories: “free” and “repressed,” “mostly unfree” and “repressed,” and “moderately free” and “mostly unfree.”

The null hypothesis of equality between the five means could not be rejected, however, for the unemployment rate (p = .3474), given that the mean square due to error (MSE) for the between group variation for the unemployment rate was relatively smaller than for inflation and GDP per capita. Given the notable differences in the mean unemployment rate, however, a series of two sample t-tests was performed, given that Fisher’s LSD is not applicable in this case. The mean unemployment rate for the free countries is significantly lower as compared to the mean rate in all other categories. Moreover, the mean unemployment rate for mostly free countries was lower as compared to moderately free countries (p = .0518). For all other pairs, no significant difference was found. This result is not surprising, given that the standard deviation increased greatly as the level of economic freedom fell. For example, the unemployment rate standard deviation was

| <b>Table 2: The Relationship Between Economic Performance and Economic Freedom</b> | <b>Mean GDP per capita (\$)</b> | <b>Mean Unemployment (%)</b> | <b>Mean Inflation (%)</b> |
|--|---------------------------------|------------------------------|---------------------------|
| <b>Economic Freedom Rank</b>   |                                 |                              |                           |
| Free   | 56,813.24                       | 4.62                         | 0.64                      |
| Mostly Free  | 44,887.60                       | 7.46                         | 1.25                      |
| Moderately Free  | 21,330.69                       | 9.72                         | 1.83                      |
| Mostly Unfree  | 7,446.66                        | 9.12                         | 4.96                      |
| Repressed  | 7,917.71                        | 10.70                        | 12.27                     |

Source: 2017 Index of Economic Freedom Macroeconomic data; retrieved from <http://www.heritage.org/index/explore?view=by-variables>.

only 1.42 in the free category, steadily increasing to 11.03 for the repressed category.

Although Table 2 demonstrates that more market-based economies have a higher per capita GDP, Francis also has a concern with the distribution of income. The GINI coefficient measures income dispersion within a country, with a value of zero representing perfect equality of income, and a value of 100 representing perfect inequality. Table 3 illustrates the relationship between economic freedom and the GINI coefficient. The results from a single factor ANOVA analysis indicated that the null hypothesis of equality between the five category mean GINI coefficient could be rejected at a 10% significance level (p-value = 0.059). Given this result, Fisher’s LSD procedure was then used to identify exactly where group differences occurred. There is a significant difference at the 5% level between the mean GINI coefficient in the mostly free category and the repressed category; the mostly free and mostly unfree categories; and

the mostly free and moderately free categories. The null of equality between the free and repressed categories, however, could not be rejected. This result was driven by Hong Kong’s GINI coefficient of 54. It is likely that the lack of competition in the Hong Kong housing market contributes to this result. According to Yan (2014, November 7):

The property sector is dominated by tycoons, who also control a number of other industries from supermarkets to utilities. Three companies account for 72% of the residential property market in Hong Kong —without greater market competition, the tycoons are seen as gaming an unfair system in their favor. (para. 14)

One of the roles of the government in a market economy is to ensure that markets are competitive. In the US, the Federal Trade Commission and the Department of Justice are charged with this responsibility.

| <b>Table 3: The Relationship Between Equality, Environmental Concern and Economic Freedom</b> | GINI Coefficient | Deforestation (i) | Air Pollution (ii) |
|---|------------------|-------------------|--------------------|
| <b>Economic Freedom Rank</b>  |                  |                   |                    |
| Free  | 39.76            | -0.0325           | 11.00              |
| Mostly Free   | 35.59            | -0.3222           | 20.96              |
| Moderately Free   | 41.53            | -0.1744           | 24.56              |
| Mostly Unfree   | 41.13            | 0.2361            | 34.72              |
| Repressed   | 42.02            | 0.5196            | 31.09              |

Sources: GINI coefficient: Two primary sources were used for most of the countries: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2172rank.html> and <http://hdr.undp.org/en/content/income-gini-coefficient>

Environmental measures: World Bank. 2017. World Development Indicators.

The World Bank provides the following definitions:

- (i) “Deforestation is the permanent conversion of natural forest area to other uses, including agriculture, ranching, settlements, and infrastructure” (p. 61).
- (ii) “Deforestation is the permanent conversion of natural forest area to other uses, including agriculture, ranching, settlements, and infrastructure” (p. 61).

Francis also voices concern regarding the impact of economic activity on the environment. Table 3, therefore, focuses on how environmental degradation differs between countries based on their level of economic freedom. The World Bank (2017) annually compiles World Development Indicators which “encompass the availability and use of environmental resources (forest, water, cultivable land, and energy) and cover environmental degradation (pollution, deforestation, and loss of habitat and biodiversity)” (p. 51). The analysis includes two variables, specifically deforestation and ambient PM2.5 air pollution. The deforestation statistic is the average annual percentage change from 2000 to 2015. A negative value indicates that there was an increase in forest areas over the time period. The air pollution measure is the population weighted exposure micrograms per cubic meter as measured in 2015. The notes included in Table 3 provide more detailed variable definitions.

Table 3 illustrates the relationship between economic freedom and these measures of environmental impact. The results from a single factor ANOVA analysis indicated that the null hypothesis of equality between the five category mean deforestation percentages over the period 2000-2015 could be rejected at a 5% significance level (p-value = 0.0354). In addition, the null hypothesis of equality between the five category mean pollution levels was rejected at a 1% significance level (p-value = 0.002). These results are consistent with the findings of Miller and Kim (2017) showing the positive relationship between the level of economic freedom, innovation and environmental performance.

Fisher’s LSD procedure revealed the following differences in the mean pollution levels for the following categories at the 5% level: free-mostly unfree; mostly free-mostly unfree; and moderately free-mostly unfree. The following pairs differed at the 10% level: free-repressed and mostly free-repressed. With regard to the level of deforestation, only the least two categories (mostly unfree and repressed) had worsening deforestation. Although there was no significant

difference in deforestation between the free and mostly unfree/repressed categories, this result was likely driven by the low number of countries in the free category (4), relative to the other categories, which inflated the LSD]. Fisher’s LSD procedure did reveal, however, that not only is there a significant difference between the amounts of deforestation in the mostly free and mostly unfree and repressed countries, there is also a significant difference between even the moderately free and mostly unfree and repressed countries. This result provides evidence that even marginally increasing the level of economic freedom has a positive environmental impact.

In addition to the variables reflecting environmental degradation from Table 3, Table 4 illustrates the relationship between a country’s level of economic freedom and access to environmental resources. Pope Francis (2013), conveys his concern regarding access to the basic necessities of life when he states “How can it be that it is not a news item when an elderly homeless person dies of exposure, but it is news when the stock market loses two points? This is a case of exclusion” (para. 53). Furthermore, an entire chapter in *Laudato Si’* (Francis, 2015) is devoted to the issue of water, with the pope declaring “*access to safe drinkable water is a basic and universal human right, since it is essential to human survival and, as such, is a condition for the exercise of other human rights*” (para. 30). Such statements imply that a necessary outcome of an economic system is that individuals’ basic needs are fulfilled.

The question then becomes - in what type of economic system do the largest percentage of individuals have their basic needs met? The World Bank Indicators (2017) includes several measures which speak to this issue: the percentage of the population with access to an improved water source, the percentage of the population with access to improved sanitation facilities, and the percentage of children under 5 who are malnourished. The notes accompanying Table 4 provide more detailed variable definitions.

Table 4 reveals that basic living conditions

improve as the level of economic freedom increases, especially with regard to the percentage of the population with access to improved sanitation. The results from a single factor ANOVA analysis indicated that the null hypothesis of equality between the five category means can be rejected for each variable at a 1% significance level ( $p = 0.000$ ). The results from Fisher's LSD procedure reveal that for all three measures, even incremental increases in economic freedom improves basic living conditions as there was a significant difference for all three mean measures

between even the moderately free and mostly unfree and repressed categories. Moreover, with regard to water access, there is even a significant difference between mostly unfree and repressed countries. In addition, there was a weakly significant difference (10%) between the mean levels in the mostly free and moderately free categories for both the sanitation and childhood malnutrition measures.

The results from Table 4 provide convincing supporting evidence for the following statement

| <b>Table 4: The Relationship Between Economic Freedom and Basic Living Conditions</b> | % of Total Population with Improved Water Source Access (i) | % of Total Population with Improved Sanitation Access (ii) | Percentage of Malnourished Children Under Age 5 (iii) |
|---|---|--|---|
| <b>Economic Freedom Rank</b>  |   |  |   |
| Free  | 100.00  | 100.00   | N/A   |
| Mostly Free   | 99.00   | 95.15  | 7.23  |
| Moderately Free   | 94.70   | 85.07  | 17.18   |
| Mostly Unfree   | 83.35   | 57.05  | 28.66   |
| Repressed   | 74.32   | 50.18  | 29.68   |

Source: World Bank. 2017. World Development Indicators.

The World Bank provides the following definitions:

- (i) "Access to an improved water source is the percentage of the population using an improved drinking water source. An improved drinking water source includes piped water on premises (piped household water connection located inside the user's dwelling, plot or yard), public taps or standpipes, tube wells or boreholes, protected dug wells, protected springs, and rainwater collection" (p.61).
- (ii) "Access to improved sanitation facilities is the percentage of the population using improved sanitation facilities. Improved sanitation facilities are likely to ensure hygienic separation of human excreta from human contact. They include flush/pour flush toilets (to piped sewer system, septic tank, or pit latrine), ventilated improved pit latrines, pit latrines with slab, and composting toilets" (p.61).
- (iii) "Prevalence of child malnutrition, stunting, is the percentage of children under age 5 whose height for age is more than two standard deviations below the median for the international reference population ages 0–59 months" (p.45).

made by the Friedmans (1990):

Wherever the free market has been permitted to operate, wherever anything approaching equality of opportunity has existed, the ordinary man has been able to attain levels of living never dreamed of before. Nowhere is the gap between rich and poor wider, nowhere are the rich richer and the poor poorer, than in those societies that do not permit the free market to operate. (p. 146)

Pope Francis (2013) strongly expresses his concern too many individuals are left out of a market based economy when he states, “As a consequence, masses of people find themselves excluded and marginalized: without work, without possibilities, without any means of escape” (para. 53). If individuals are to have a “means of escape” from poverty, the government sector must fulfill a very specific role. “This role of government also includes facilitating voluntary exchanges by adopting general rules—the rules of the economic and social game that the citizens of a free society play” (Miller & Kim, 2017 p. 30). The Index of Economic Freedom contains three components that capture a country’s effectiveness at setting these “rules of the game”: property rights, government integrity, and judicial effectiveness.

Secure property rights and judicial effectiveness are necessary to promote the pope’s goal of inclusiveness. As Miller and Kim (2017) explain:

Secure property rights give citizens the confidence to undertake entrepreneurial activity, save their income, and make long-term plans because they know that their income, savings, and property (both real and intellectual) are safe from unfair

expropriation or theft. Property rights are a primary factor in the accumulation of capital for production and investment. (p. 20)

Judicial effectiveness complements secure property rights as “Well-functioning legal frameworks protect the rights of all citizens against infringement of the law by others, including by governments and powerful parties” (Miller & Kim, 2017, p. 21). Moreover, “...judicial effectiveness is a critical factor in empowering individuals, ending discrimination, and enhancing competition” (2017, p. 21).

Francis (2013) also recognizes the importance of government integrity, stating “All this becomes even more exasperating for the marginalized in the light of the widespread and deeply rooted corruption found in many countries – in their governments, businesses and institutions” (para. 60). Furthermore, government integrity is consistent with the principle of subsidiarity as “There is a direct relationship between the extent of government intervention in economic activity and the prevalence of corruption. In particular, excessive and redundant government regulations provide opportunities for bribery and graft” (Miller & Kim, 2017, p. 21). Table 5 illustrates that there is more than a three-fold difference in the rule of law scores between countries in the free and repressed categories. The results in Table 5, along with the finding from Table 2 that GDP per capita increases as the level of economic freedom increases, demonstrate the importance of the “rule of law” if individuals are to have a “means of escape” from poverty.

Taken together, the results in this section provide evidence that Francis’ (2013, para. 54) statement

| <b>Table 5: The Relationship Between Economic Freedom and Governmental Effectiveness</b> | <b>Property Rights</b> | <b>Government Integrity</b> | <b>Judicial Effectiveness</b> |
|--|------------------------|-----------------------------|-------------------------------|
| <b>Economic Freedom Rank</b>   |                        |                             |                               |
| Free   | 91.11                  | 82.65                       | 86.91                         |
| Mostly Free  | 77.82                  | 69.34                       | 70.63                         |
| Moderately Free  | 59.42                  | 44.49                       | 48.27                         |
| Mostly Unfree  | 41.87                  | 32.77                       | 36.60                         |
| Repressed  | 28.66                  | 26.33                       | 18.78                         |

Source: 2017 Index of Economic Freedom data; Retrieved from <http://www.heritage.org/index/explore> .

regarding “trickle-down policies” does not hold true empirically. Indeed, Waterman (2017), in agreement with Milton Friedman, states:

Yet the capitalist (mixed) economy, despite its many infirmities, has since 1945 provided far more productive employment and generated far more wealth for more people and in more countries than ever before in human history. Pope Francis’s antimarket bias thus sometimes looks like willful blindness. (p. 389)

## The Evolution of Capitalism in the United States

The evolution of capitalism in the United States illustrates that morality is not inherently imbedded in an economic system, rather morality must come from the participants within the system. This is clearly illustrated by the progression of slavery in America. In a panel discussion (Conrad, 1967) on slavery in the United States, Douglas Dowd states that “American Negro slavery was the very ‘worst’ the world had known, in its nature and in its consequences, whether it be compared with ancient or contemporaneous slavery (in, for example, Brazil or the Caribbean)” (p. 534).

A basic principle of a market economy is that resources will flow to where they are most highly valued. This premise held true throughout the era of slavery in the US, but disturbingly, the resources being used and reallocated in response to changes in economic conditions were human. Baptist (2016), in his book, *The Half Has Never Been Told*”, demonstrates that slavery fueled US economic growth during this time period, as opposed to detracted from it. I have selected several examples from his book that reveal the absence of morality that allowed slavery to persist and evolve and that this evolution occurred very much in accordance with the predictions of economic theory- namely that resources are reallocated based on changes in industry profits and changes in the relative prices of inputs.

It is important to note that Baptist’s recent book is a departure from earlier historical thought-

where slavery was considered to be economically inefficient. Many historians believed that slavery would decline without political action as slaves were overcapitalized - the slave prices exceeded the net present value of the revenue stream that they would produce for the owner (Bergstrom, 1971). As Rockman (2014) states, “Although the United States also had an industrial revolution reliant upon slave-grown cotton, the American historiography had generally considered slavery as a bounded regional economy, marking the South as a laggard, rather than a leader in national economic development” (p. 444). In addition, Pack and Dimand (1996), analyzing Adam Smith’s perspective on slavery, note that the “father of economics’ believed slavery was an ineffective means of production as slaves, without property rights, had a diminished incentive for efficiency. Although he does not state so explicitly, Smith inherently recognized the need for morality and personal responsibility within a capitalist society in order for slavery to end. Pack and Dimand (1996), observe that Smith did not believe that slavery would come to a natural end, based on his writing in *Lectures on Jurisprudence*:

...the love of domination and authority and the pleasure men take in having everything done by their express orders, rather than to condescend to bargain and treat with those whom they look upon as their inferiors and are inclined to use in a haughty way; this love of domination and tyrannizing, I say, will make it impossible for the slaves in a free country ever to recover their liberty. (Smith, 1978, p. 186)

In contrast, however, other modern economists have found that slavery was a productively efficient organizational form and that there was a competitive market for slaves. In a frequently cited paper, Conrad and Meyer (1958), using data on slave and cotton prices, calculate the rate of return to slave capital, and conclude:

There was nothing necessarily self-destructive about the profits of the slave economy. Neither the overcapitalization argument nor the assertion that slavery must have collapsed because the slaves would

not reproduce themselves is tenable. Slave prices did not outpace productivity and the regional slave price structure would imply a workable transfer mechanism rather than the contrary. (p. 121)

Building on Conrad and Meyer, Bergstrom (1971) uses a general equilibrium model to test the hypothesis that slavery would have declined naturally due to overcapitalization of the slave population. He determines that:

The slave system would appear to be an efficient means of achieving any particular distribution of wealth favorable to the slave owning class. The case against slavery, it seems, must be made not primarily on grounds of inefficiency but on grounds of the morality of the resultant distribution of wealth. (p. 32)

Baptist's (2016) book, complements the empirical work of these economist historians, providing detailed examples of the dynamics of the slave-based market economy in American during the late 1700s through the 1800s. During this time, in response to changes in the relative prices of various commodities, slave labor was reallocated from the eastern part of the country, westward and southward. Baptist explains how slavery evolved as the U.S. markets for rice and tobacco changed. After the American Revolution, rice plantations were destroyed and the U.S. could not export tobacco to Britain, causing the price of tobacco to fall drastically. As a result, "...slavery in the old Virginia and Maryland tobacco districts was increasingly unprofitable..." (p. 6). As economic theory predicts, this change in relative prices impacted how resources were used:

As tobacco prices plummeted in the 1780s, the prices of long-staple or "Sea-Island" cotton rose. Then, in the early 1790s, Carolina and Georgia enslavers started to use a new machine called the 'cotton gin.' That enabled the speedy processing of short-staple cotton... that would grow in the backcountry where the long staple variant would not. Suddenly enslavers knew what to plant in the Georgia-Carolina interior. (p. 18)

A profit opportunity, therefore, emerged for whites who did not own land. Baptist (2016) explains:

...less wealthy white men... perceived a growing opportunity for those who were willing to buy slaves in the Chesapeake and march them south for sale. Such white men began to strike out on their own in greater numbers with each year in the 1780s and 1790s. So the 'Georgia-man,' an all-too real boogeyman, became a specific type of danger in the oral book of knowledge of enslaved African Americans. (p. 21)

Baptist (2016) goes on to tell how this market grew to become both more formalized and efficient:

...by 1829, a new set of entrepreneurs was building on the earlier development of market institutions in New Orleans to create a powerful and efficient trade... They were young men who were getting rich quick by specializing in one commodity-humans. Buying masses of enslaved people for low prices in Virginia and Maryland... and boated them down the river and around the cape of Florida to New Orleans or elsewhere to the Southwest. The new entrepreneurs were efficiently connecting stored wealth to markets by handling the middle portion of the forced migration process. (pp. 178-179)

As a result of this evolution, slaves became increasingly liquid assets. "Traders calibrated their innovations not only for southwestern entrepreneurs who wanted hands, but also to provide a highly useful service to southeastern white folks- the ability to turn a person into cash at the shortest possible notice" (Baptist, 2016, p. 185). As their liquidity increased, slaves were increasingly commoditized. The first step in this process was to break down the African American family. Baptist states:

Under Virginia and Maryland law, the slave has been chattel since the seventeenth century. Slaves could be sold by their owners, moved by their owners, and separated from others by their owners. Georgia and Carolina cut and pasted many

aspects of the Virginia slave code into their laws. But in practice, the laws were implemented differently. Almost all of the slaves down here [in Georgia and Carolina] were new to the whites who owned them, and they used them without constraint. The Chesapeake enslavers were bound by many different considerations... family ties between enslaved people that were important to whites, fear of angry slaves, fear of one's evangelized conscience, fear of foreign criticism of the land of the free. Still by 1805 the coffer chain was breaking that pattern... The person in irons became more truly owned by someone else, more easily separated from family and more easily traded and commodified. (p. 32)

Furthermore, as part of this forced migration, slaves were rendered more homogenous. In the Chesapeake and Carolinas, some slaves did develop specialized skills such as a blacksmith, cook, or weaver, which increased their value on the old plantations. After their transport to New Orleans and subsequent sale, however, these skills were not recorded or incorporated into their selling price. Baptist (2016) writes that "Only 1.5 percent of the bills of sale for enslaved people shipped from Norfolk and sold in New Orleans in 1815 to 1820 list a skill. The other 98.5 percent might not have come from the fields, but field hands they now were" (p. 104). As a result, he comments that "...each person for sale was a commodity: alienable, easily sold, and, in important ways, rendered effectively identical for white entrepreneurs' direct manipulation" (p. 101).

As property, slaves could be used as collateral. Disturbingly, however, a precursor to the present day asset-backed security based on enslaved people evolved. Baptist (2016) explains the development of firms called "factors":

They began to lend money to enslavers on the security of ensuing crops and mortgages on slaves. Factors also arranged for transportation, secured insurance for crops in transit and bought supplies for clients' labor camps... In the 1850s, the factors

mediated between cotton producers and the world market, channeling credit and taking the intermediate risk of lending. The factors themselves needed credit, and their financing came from New York banks... Bigger planters and small-town merchants found that they could take their own incoming flow of credit from factors, repackage it and pass it on at more capillary levels, thus making money from their own investments in other people's enslavement of still other people... Repackagers usually demanded a mortgage on individual slaves as security... While slave mortgages had been made since the seventeenth century, they were now ubiquitous. During 1859, Louisiana enslavers raised \$25.7 million, 75% of the value of cotton produced in the state that year, by mortgaging slaves. (pp. 352-353)

Friedman & Friedman (1990) describe the government as "...the agency that is widely regarded as having a monopoly on the legitimate use of force or the threat of force as the means through which some of us can legitimately impose restraints through force upon others of us" (p. 28). This perspective on government is especially relevant as decisions were made at the birth of the U.S. and in her early days which allowed slavery to expand. Baptist (2016) notes that "...the [American] Revolution raised the question of whether slavery should even exist, since the rebellion had been justified with the claim that human beings had a God-given right to freedom" (p. 4). However, economic interest proved to override morality. Indeed, two future Supreme Court justices, explicitly stated that self-interest, not morality, should govern this question. Paraphrasing Oliver Ellsworth of Connecticut, Baptist (2016) states, "Rather than simply attacking the international slave trade's morality, or bewailing the effects of slaveholding in the moral abstract, let the economic interests of white Americans dictate whether the Atlantic slave trade should be closed" (p. 10).

He goes on to quote South Carolina's John Rutledge:

...religion and humanity [have] nothing to do with this question. Interest alone is the governing principle with nations... The true question at present is whether the Southern States shall or shall not be parties to the Union. If the Northern States consult their interest, they will not oppose the increase of Slaves which will increase the commodities of which they will become the carriers. (Baptist, 2016, pp. 10-11)

Ultimately there were a series of compromises. The Three-Fifths Compromise permitted a slave to count for three-fifths of a free person in determining representation in the House of Representatives. The Northwest Ordinance contained a ban on slavery and the Southwest Ordinance did not. The Atlantic slave trade would ultimately be banned, but not until 1808. Thus, Baptist (2016) concludes:

...interest was the governing principle shaping the Constitution. In the interest of both profit and unity, they and most other white Americans proved willing to permit the forced movement of enslaved people... the outcome was plain: the upper and lower South would get to expand slavery through both the Atlantic trade and the internal trade. Meanwhile, the Northeast would earn profits by transporting the commodities generated by slavery's growth. (p. 11)

He further emphasizes that even the ban on the Atlantic slave trade was not a true moral victory:

...this slave trade ban... was a political possibility in part because the Middle Passage was no longer seen as an economic necessity. Feet marching west, south, and southwest enabled slaveholders in the new western districts of South Carolina, Georgia, and elsewhere to buy from an endless coffle of people... Thus, the bill's passage did not mean that the southern representatives who voted for it believed slavery was wrong. As one of them insisted proudly, "A large majority of people in the Southern states do not consider slavery as a crime." (Baptist, 2016, p.48)

These American political decisions cannot be viewed in a vacuum, however. Even at that time, countries' economies were linked. Demand for the American expansion of slavery was a derived demand driven by the growing European demand for cotton. Baptist (2016) explains that before 1800, cotton fiber was very expensive as most of it was produced in India, the Caribbean and Brazil. These countries, however had limited resources for cotton production which kept the price high. This high price limited the production capacity of the textile industry in Britain. North America, however, "...had thousands of acres of possible cotton fields, thousands for each one in the Caribbean" (p. 82). The political fight to allow slavery to expand in the new American territories thus ensued.

By 1819, the rapid expansion of Mississippi Valley slave labor camps had enabled the United States to seize control of the world export market for cotton, the most crucial of early industrial commodities. And cotton became the dominant driver of US economic growth. In 1802, cotton already accounted for 14 percent of the value of all US exports, but by 1820 it accounted for 42 percent- in an economy reliant on exports to acquire the goods and credit it needed for growth. (Baptist, 2016, pp. 82-83)

Technological advancement helped to meet this growing demand with the invention of the cotton gin in 1794 by Eli Whitney, which increased the speed at which the seeds could be removed from the cotton fiber. "Picking was now the bottleneck: the part of the production process that took the most labor, and the part that determined how much money enslavers would make... [Moreover] picking was difficult and picking fast was very difficult" (Baptist, 2016, p. 126). Consequently, enslavers adopted techniques to increase picking productivity. Enslavers kept track of each slave's picking total to set individual quotas which they then increased as they were achieved:

Planters and entrepreneurs rarely talked about how other human beings actually picked cotton, but they didn't need to. They had only to deploy and tune the

technology of the whip, steelyard and slate in order to force people to focus their minds on inventing new ways to perform repetitive and mind-numbing labor at nearly impossible speed. ... [As a result], [h]ard forced labor multiplied US cotton production to 130 times its 1800 level by 1860. Slave labor camps were more efficient producers of revenue than free farms in the North. (Baptist, 2016, p. 142)

Shockingly, Baptist (2016) explains that:

For many southwestern whites, whipping was a gateway form of violence that let to bizarrely creative levels of sadism... Every modern method of torture was used at one time or another: sexual humiliation, mutilation, electric shocks, solitary confinement in “stress positions,” burning, even waterboarding. (p. 141)

Baptist (2016) classifies torture as a “factor of production.” This is not entirely accurate- as a factor of production is most often thought of as a physical resource - land, labor and physical capital. Entrepreneurship is sometimes classified as a fourth factor of production, but in reality it represents new and innovative ways of combining economic resources. In a market economy, the potential for profit fuels the entrepreneurial spirit - unleashes Smith’s “invisible hand.” For enslaved people, the goal was survival, not profit. The desire to live proved to be a more powerful motivator than profit given that after the emancipation, cotton productivity dropped:

...neither African Americans nor anyone else would do hand labor at the breakneck speed and soul-scarring pace of the whipping machine. The total number of bales produced in the United States didn’t surpass 1859’s peak until 1875, despite a significant increase in the number of people making cotton in the South after emancipation. Cotton productivity dropped significantly. Many enslaved cotton pickers in the late 1850s had peaked at well over 200 pounds per day. In the 1930s, after a half-century of massive scientific experimentation, all

to make the cotton boll more pickable, the great-grandchildren of the enslaved often picked only 100-120 pounds per day. (Baptist, 2016, p. 410)

Note that this finding contradicts the view of slavery once held by many historians who emphasized that slavery must have been detrimental to economic growth in the South. Their argument is actually based on the economic concept of opportunity cost. In a panel discussion on slavery (Conrad, 1967), Eli Ginzberg commented that “...the South inhibited economic development by insisting that it would not make use of the latent potential of a large part of its labor force... [I]t was a poor way of using the human resources of the region” (p. 539). However, as Baptist (2016) describes, the opportunity cost of low productivity was quite high for a slave.

The evolution and expansion of slavery in the U.S. show that the pope’s concerns are not new and that they truly reflect not an issue with capitalism but rather with a lack of morality as Cardinal Dolan suggests. Francis’ (2013) statement in which he admonishes, “In this system, which tends to devour everything which stands in the way of increased profits, whatever is fragile... is defenseless before the interests of a deified market,” (para. 56) certainly captures the immoral choices many made in the early history of the United States. Some of these choices are quite obvious - the slave speculator and the auctioneer could have selected another occupation. Cotton could have been picked with free labor if plantation owners would have been satisfied with lower profits. The Southwest Ordinance, like the Northwest Ordinance, could have included a ban on slavery. The Atlantic slave trade could be prohibited before 1808.

More subtle, however is the lack of personal responsibility on the part of those who benefited from slavery. Baptist (2016) explains:

The expanding cotton plantations of America’s southwestern region allowed the textile industries to escape Malthusian constraints... [E]ven as textile factories harnessed increasingly complex machinery

to more powerful non-human energy sources, even moving from water to steam power, cotton pickers produced gains in productivity similar to those of cotton factories. And those gains created a huge pie, from which many people around the world took a huge slice. Lower real cotton prices passed on gains in the form of capital reinvestment in more efficient factory equipment, higher wages for the new industrial working class and revenue for factory owners, enslavers, and governments. Cheaper cotton meant cheaper cloth and clothing. Thus productivity gains in the cotton fields also translated into benefits for consumers of cloth. Most of the world eventually acquired cloth made in the industrial West from cotton picked in the US South. (p. 128)

What if consumers had decided not to purchase goods made with slave labor? The concept of consumer sovereignty tells us that profit maximizing firms would have responded and altered their production techniques.

The relatively recent Fair Trade Certified movement illustrates the power of consumer sovereignty in a market based economy. The number of products that are “Fair Trade Certified” are growing - these products now include not only just coffee, but also apparel and wine. Fair Trade USA describes the fair trade movement as a market based model, providing an alternative to government aid. The following is from the Fair Trade USA website: “We believe the rise of the Conscious Consumer will cause a fundamental shift in the way companies do business and create a historic opportunity to reward companies that embrace sustainability” (Fair Trade USA, n.d.).

What if the rise of the “Conscious Consumer” had started at the Constitutional Convention in 1787? It is important to emphasize that this movement emerged without government mandate and demonstrates the power of consumer sovereignty in a market-based economy. Moreover, in *Laudato Si'*, Pope Francis (2015) actually acknowledges the feasibility of a market-based solution to bring

about the prudent use of economic resources, stating that “If we look at the larger picture, we can see that more diversified and innovative forms of production which impact less on the environment can prove very profitable” (para. 191).

## Conclusion

An economic system does not exist in a vacuum, rather people interact within the system. I agree with Cardinal Dolan who comments that Francis is not against capitalism, per se, but rather calls for personal morality and a commitment to act to preserve the dignity of all humans in all actions. Clark (2015), who warns against an absolute belief in the “invisible hand” notes that Francis is consistent with prior Church teachings, reminding us that “...the church has always rejected, and will always reject... the view that markets are always just and that private greed always, or usually promotes public virtue” (p. 129). Hirschfeld (2015) expands on this point, cautioning that a narrow focus on the “market-state binary” will cause us “...to miss the importance of challenging cultural norms” (p. 149). Cloutier (2015) explains that “One might properly say that Catholic social teaching is not capitalist or socialist, but personalist (p. 126). Shadle (2015) concurs, noting that “... it is not simply a question of more market or more state, but what kind of market and what kind of state.” (p. 152). He also points out that Pope Francis emphasizes the need for cultural change in *Evangelii Gaudium*:

Changing structures without generating new convictions and attitudes will only ensure that those same structures will become, sooner or later, corrupt, oppressive and ineffectual. (Francis, 2013, para. 189)

Moreover, the call for personal responsibility and cultural change is not unique to Pope Francis or even Catholicism. Cremers has recently identified the need to refine agency theory as it “...may facilitate a rationalization and justification of unethical behavior... [T]hey [shareholders, directors and corporate managers] may reasonably think that any legally sanctioned action is also

morally legitimate” (Cremers, 2016, April 4). He goes on to argue that corporate governance should include a “compass” function “...to provide the set of values to guide the firm’s strategy toward its contributions to human flourishing” (Cremers, 2016, April 4). Related to this “compass function” is Barton’s (2011) appeal for the US market to adopt a long-term focus, noting that in contrast to the US, Asian countries have historically evaluated decisions using a 10-15 year time frame. He calls for executives to lead the charge in this evolution of capitalism:

I remain convinced that capitalism is the economic system best suited to advancing the human condition, I’m equally persuaded that it must be renewed ... to restore business’s standing as a force for good, worthy of the public’s trust. ...By rebuilding capitalism for the long term, we can make it stronger, more equitable, and better able to deliver the sustainable growth the world needs. ...The kind of deep-seated, systematic changes I’m calling for can be achieved only if boards, business executives and investors around the world take responsibility for bettering the system that they lead (p. 91)

Finally, the results of Section II provides evidence in favor of a market-based economy, consistent with the writing of Milton and Rose Friedman (1990) in *Free to Choose*. Moreover, the higher GDP per capita in more market-based economies allows for a greater “gift of self.” Consistent with the results of Table 2, McQuillan and Park (2017), find that private charitable giving is higher in countries with more economic freedom, with economic freedom explaining nearly 20% of the variation in giving.

I believe that consumer sovereignty and corporate governance, carried out in accordance with the three pillars of Catholic Social Justice of human dignity, solidarity and subsidiarity, can fulfill the pope’s mandate in *Evangelii Gaudium* (2013) that “The dignity of each human person and the pursuit of the common good are concerns which ought to shape all economic policies” (para. 203). Moreover, business faculty in Catholic colleges

and universities, need to do a better job of infusing the principles of Catholic social justice into our courses to help facilitate this necessary cultural change in our graduates.

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