The Ethical Reconstruction of Economics

This paper explores the possibility of developing an alternative to the constraints that liberal assumptions have imposed upon political economic theory and practice. The first section presents the historical origins of the problem that began by substituting the metaphysical foundations of reason with a theology of providence and an empirical science that guide economic activity without the conscious responsibility of human agency. The second section explores developments in Lonergan’s thought that define a heuristic epistemology, a critical metaphysics and a theology of grace from which an historical dialectic unfolds to recover human reason, responsibility and agency. The concluding section outlines some initial learnings from this framework which offer criteria for the educational program that must be undertaken to orient the ethical praxis of reason that is required for the necessary reconstruction of our political economy.

We live in a liberal world disorder of generalized irresponsibility. Or, to put the same matter differently, the standard measuring responsibility is a weak one. Prevailing institutions and their associated ideas make everybody in general insecure and in particular economically insecure because nobody is responsible for meeting anyone else’s needs. Prevailing social norms recognize no rational or objective basis for the
principle of love of neighbor that makes everyone responsible for everyone else.

For Bernard Lonergan, liberalism is not so much a doctrine or theory as it is a set of institutions, an historical fact. Not being a theory itself, it lends itself to modernist ideologies. Modernism denies that there is a higher authority presiding over history. There is no rational authority that implies social responsibility, or any responsibility. Economic insecurity and the economic ideas that rationalize it are one aspect—a very important aspect—of liberal institutions and their associated modernist ideas.¹

It was not always so. Of course it is not so even today for those who, while dwelling in a predominantly liberal modern world-system, march to the beat of a different drummer. In the older western tradition, before modernity, from Plato onward the very idea of reason implied (in Lonergan’s terms) judgment, decision, and responsibility to a wider community and a higher authority. Herein lies the importance of Lonergan’s contribution to economic theory, the social sciences and political philosophy. He leads subjects to an insightful appropriation of transcendence through their acts of authentic understanding, judging and deciding. He leads them to an objective knowledge of what truth, being and the good are.

How reason lost its authority to religion and the senses

Two Chilean academics have written recently on the theological and epistemological assumptions that have defined the political economy of liberalism in the Anglo-Saxon and North American traditions. Renato Espoz argues that the rejection of the metaphysical foundations of reality that began with the Protestant reformation limited human reason and freedom to practical experience and utilitarian values.² Within this perspective his colleague, Andres Monares examines how the theological notion of providence influenced how Reformed theologians and Enlightenment philosophers conceived the sciences, human natures,
When Martin Luther (1483-1546) rejected the metaphysics of Catholic natural philosophy, he affirmed that natural reason was corrupted by sin and incapable of understanding God’s gift of salvation through forgiveness by grace alone. John Calvin (1509-1564) agreed. Sin so radically corrupted human intelligence and freedom that only faith could restore reason and the will to their proper and limited capacities. In his view God’s absolute sovereignty operates providentially through human frailty in order to realize the divine plan, which predestines the few who are to be received into grace and the many that are to be condemned. These views led him to subordi

Monares then examines how Calvin’s doctrine on God’s sovereignty and human sin defined a theology that oriented later developments in natural philosophy and scientific research. These were understood as religious activity that seeks to understand God’s attributes. Two attributes are distinguished: the attributes of God that cannot be known through reason but only through faith in what was revealed in scripture, the “book of life;” and the visible attributes of God’s creation that can be known through “the book of nature.” Within this horizon of thought Francis Bacon (1561-1626) distinguished knowledge of God’s will that has been revealed in scripture and a partial knowledge of God’s power and attributes in nature. God as the primary cause providentially sustains the secondary causes of natural phenomena that are observable.

From these theological assumptions Bacon proposed an inductive method that begins with empirical scrutiny. Observation leads to discovery of the general laws of nature and develops an empirical science at the service of the biblical mandate to dominate the earth. In this perspective, Christian charity guides the pious and practical labor of
the sciences, which glorify God through knowledge of His attributes and which also benefit mankind through the technological control of nature. The criterion used to verify the truth of this new-found knowledge is empirical verification. Baconian science thereby fulfills the biblical mandate to dominate the earth with a technological knowledge that benefits mankind.

Monares goes on to examine how the Protestant Reformation influenced Enlightenment thinkers. Isaac Newton (1642-1727) assumed Bacon’s empirical theology and developed a scientific system that combined mathematical theories with an inductive-experimental method. He thereby explained the laws of motion that maintain the cosmic order within the paradigm of protestant providential theology. In the conclusion of *The Mathematical Principles of Natural Philosophy* Newton affirms God as a living, intelligent and powerful Being who is adored on account of his dominion, providence and final causality. Newton applied his method to explain the laws of nature through which God providentially created and maintains the universe. His success inspired other philosophers similarly to explain the laws through which God’s will acts providentially upon the social order.

John Locke (1632-1704), a contemporary and friend of Newton, shared the view that human understanding was limited to an empirical and experimental knowledge of the laws of nature, which have their origin in God’s will. Locke affirms that all men are created equal by God in a state of nature. In this state of nature the desire to preserve their lives, liberties and estates operates as a natural and ethical principle that explains the origin of civil government. More generally, those natural desires guide human conduct toward the realization of God’s will. On Locke’s view, by following the dictates of his natural desires as an economic individual, man fulfills the divine mandate to be fertile and to subdue the earth.⁶

Monares then presents the moral philosophy of Adam Smith (1723-1790), the political philosophy of Jean Jacques Rousseau (1712-1778) and the population theory of Robert Malthus (1766-1834) as examples of 18th century notions on how God’s providence operates in nature.
For Smith the sentiment of sympathy and natural selfishness operate as an “invisible hand” through which God administers the universe in order to maximize human happiness. Here natural law and ethics are based upon the autonomous transactions of a market economy in which human beings pursue the gratification of their desires. During the same period Rousseau repudiated the doctrine of original sin and affirmed a natural religion in which the subject is capable of discovering goodness and the voice of God within. From these assumptions he adapted the biblical notion of covenant to postulate a “social contract” whereby the “general will” becomes the supreme director of State institutions. For Rousseau, God’s providence is manifested in an assembly of citizens in which the voice of the people is the voice of God. In contrast to Rousseau’s optimistic view, Malthus draws attention to man’s “struggle for existence” and to population growth that threatens to exceed the earth’s capacity to sustain mankind. He saw that threat as part of God’s way to teach the virtues of hard work and moral behavior.

During the 19th century liberal thought began to define its understanding of nature independently of theological assumptions. Charles Darwin (1809-1882), accepted Malthus’ idea on the “struggle for existence.” Darwin also adopted the notion of “natural selection” from Alfred Wallace (1823-1913) to explain the evolution of species as a competitive struggle for survival in the face of limited resources. His theory of evolution is neither teleological nor anthropocentric and as an agnostic Darwin made no theological claims to explain God’s providence through nature. On the other hand, Herbert Spencer (1820-1903), who coined the phrase “survival of the fittest” to describe Darwin’s work, proposed a theory of evolution that supposes design and purpose. His notion of evolution supposes a progressive perfection of all phenomena, a scientifically grounded moral system and a synthetic philosophy that unifies all branches of knowledge. As an agnostic he argued that both science and religion are limited to a relative knowledge of phenomena. He thus proposed a positive faith in the Unknowable as the final stage in the evolution of religion.

In his historical analysis of liberal thought, Monares argues that the
rejection of metaphysics limited faith and reason to legitimate an empirical science and technological-economic enterprise that dominates and may even destroy the earth to benefit a minority. Monares concludes by observing how this enterprise, which first took form under the British Empire, then shifted to the United States with its doctrine of manifest destiny and continues to be imposed upon the rest of the world through international monetary policies and military operations. Monares’ historical analysis puts economics in context. It also sets the stage for understanding Lonergan’s contribution to political economic theory and practice as a paradigm change grounded in and supported by his contributions to epistemology, metaphysics, ethics, theology and education.

Lonergan’s contribution to the restoration of the authority of reason

At the beginning of his career, when Bernard Lonergan (1904-1984) began his studies in London, he assumed the distinction between real and notional assent, which John Newman (1801-1890) used to refute the liberal argument that judgments are probable but not certain. With this notion Lonergan affirmed that the operations of the mind are the foundations for certainty in scientific method. From Joseph Maréchal (1878-1944) he adopted the principle that human knowledge is discursive and constructed through a heuristic process in which judgment plays a decisive role. When he went on to his theological studies at the Gregorian University in Rome, he outlined an as yet unpublished proposal for a fundamental sociology, a philosophy of history, a metaphysics of solidarity and a theology for the social order.7

In this proposal Lonergan was clearly aware of the limitations in the epistemological, ethical and theological assumptions that legitimated the oversights in modern notions of progress. He consciously set out to correct the limited notions that underlie the liberal institutional framework of mainstream economics. Lonergan argued that a concept of progress which is based upon the self interest of a privileged minor-
ity establishes an “objective disorder (which) sets problems that have no solution in the intellectual field.” He goes on to show how in modern definitions of progress, morality is modified to rationalize social evils that are considered necessary for the advancement of the nation, the race, the revolution or naturalism. For Lonergan, such ideologies mask an underlying social decline because they fall short of an intelligent and integral view of human nature. The solution Lonergan offers is based upon a critical metaphysics and dialectical method which respond to the historical cycles of intelligent and reasonable progress, sinful ideological decline, and redemption through self-sacrificing love. By so doing he set himself the task of overcoming the epistemological limitations of Protestantism, positivism, Marxism, liberalism and naturalism.

Lonergan applied this framework in his doctoral thesis that explores the development of St. Thomas’s thought on grace and freedom. His study applied empirical, historical and critical metaphysical criteria to arrive at an understanding of how God’s operative grace inclines the free will to cooperate in the conversion process that cures the effects of sin and opens new possibilities to perfect human nature. This Catholic position, which is in continuity with the theology of Augustine and Aquinas, resolved what, since the sixteenth century, had constituted an irreconcilable controversy on the relation between grace and freedom which had its origin in scholastic speculation. The further question is whether Lonergan’s contribution can also reconcile the epistemological and historical differences between Catholic and Protestant notions of metaphysics, providence, sin and grace that influence their respective understandings of science and human nature. A key difference for Lonergan is that a theory of providence is not a theory of grace. A theory of providence which seeks an explanation of cosmic order provides a background that shows God’s operative grace in all creatures as agents. God’s grace is divine intervention over and above nature and is not a speculative conclusion that follows upon metaphysical considerations of nature.

Concerned with the economic collapse of the Great Depression, in the late 1930s and early 1940s, Lonergan began his research on economics that led to his two volumes: For a New Political Economy and
Macroeconomic Dynamics: An Essay in Circulation Analysis. The character of these works can be discerned in their titles. In the first Lonergan chooses, not the new name of the science in question, economics, but its old name, political economy, a name which recalls the oiko nomos of the Greek polis. The book is about economics as a form of governance, not in the narrow sense of being only about what governments do, but in the broad sense of human life governed by observing, understanding, judging, and deciding. The phrase “circulation analysis” in the second title shows a concern with a key issue raised, but not satisfactorily resolved, by John Maynard Keynes in his General Theory, the issue of maintaining the continuous flow of economic life, a flow which was tragically interrupted in the 1930s and is being tragically interrupted again today.

Lonergan outlines a macro dynamic model of circulation that studies economic exchange in terms of continuous (uninterrupted) flows of consumer and producer goods. Under principles of equity, and with the aid of technical tools he devises, surplus income could be directed to raise the standard of living for the whole society. For Lonergan the reason this has not happened is not simply greed. The principal cause is the lack of an intellectually adequate account of the dynamics of production, expansion, income and surplus. When an adequate economic theory is not available, self-preservation takes over as the basic dynamic that drives economics.

For Lonergan the construction of the viable economic system that is needed for our collective survival requires interdisciplinary collaboration that does not limit the study of economic activity to material or statistically predictable events—which only results in a subhuman science. The corrective Lonergan proposes also incorporates into economic analysis the agency of human subjects as sensible, intelligent, reasonable, responsible and religious beings. In his view, economic theory includes empirical, epistemological, ethical and theological assumptions that need to be made explicit.

Lonergan then went on to develop his position on knowledge and moral authority in Verbum: Word and Idea in Aquinas, which was first
published in the mid-forties. There Lonergan examined how intelligent understanding and reasonable judgment operated cognitively in the mind of St. Thomas as he developed his Trinitarian theology. In the study Lonergan affirms the inner word of understanding and judgment (verbum) as the foundation of human knowledge and as what is characteristic of the divine image in the Judeo-Christian tradition. To grasp the acts of understanding and judgment leads to knowledge of what truth, being and metaphysics are. Here responsibility and moral authority are grounded in reason itself. With this and his previous studies on grace and on economics, Lonergan established the framework for an even more ambitious project in his *Insight: A Study of Human Understanding*.

An important part of the relevance of *Insight* to economics is that in that work Lonergan shows how an objective knowledge of reality proceeds from the dynamic structure of conscious intentionality in concrete subjects in historical contexts. In authentic knowledge, conscious intentionality is empirical, intelligible, rational and responsible. It is expressed in the activities of observing, understanding, judging and deciding. Responsibility is integral. It emerges from a heuristic epistemology and a critical metaphysics founded upon objective judgments that operate dialectically to correct error and oversights.

For Lonergan, the historical development and integration of all forms of common sense, mathematical, scientific, statistical, genetic, philosophical and theological knowledge have their origins in conscious and intentional activity. The dynamic structure of conscious intentionality is what defines human nature, and what Lonergan calls a generalized empirical or transcendental method. This method radicalizes and expands the notion of the empirical to also include the concrete realities of intelligent understanding, rational judgments, ethical decisions and religious meaning. This method also provides a moving point of view, or critical metaphysics that grasps the historical dialectic in the development of knowledge, of the human good and of the human subject in relation to the revelation of God’s love.

For Lonergan, as for Aristotle, the human desire to know is heuristic. In relation to an unknown or problematic reality, we raise questions...
and seek answers. This dynamic structure of our cognitive activity defines what we do when we know and our moral character when we decide. The norms of our conscious intentionality guide this process by demanding that our knowing be attentive, intelligible, objective and responsible. Lonergan’s philosophy thereby identifies the criteria that define a heuristic epistemology, a critical metaphysics of an objective knowledge of reality, an ethics of responsible freedom, and a theology of grace based on the experience of conversion.

The same criteria offer solid foundations for an ethical reconstruction of economic science and economic practice. Such a reconstruction, when undertaken within the horizon of a theology of grace and conversion, will be guided by a faith in God’s self-sacrificing love. When self-sacrificing love guides human sensibility, understanding, reason and freedom, human integrity is restored. Lonergan affirms the basis from which it is possible to overcome the present historical state of human decline that has its roots in the limited horizons of modern materialism.

The ethical praxis of reason in economics

Economics is a vast field in which many schools of thought flourish. Many other schools of economic thought formerly flourished but are now extinct in the sense that they no longer have any living representatives. In its vast literature there are books that echo some of the themes of Lonergan’s economics. On the whole, nonetheless, Joseph Schumpeter, whose history of economic analysis Lonergan carefully read, was accurate in finding that the institutional framework reflected by economics has been that of modern liberalism.

We have been suggesting in this paper that Lonergan’s economics is part and parcel of a critique of liberalism and of modernity and a revival and renovation of ancient communitarian ideals. To agree with Lonergan is not deciding to agree with one theory rather than another produced by normal scientific work within the dominant paradigm. To agree with Lonergan is to assume his position against the contra-posi-
tion of liberalism. It is unlike, for example, deciding to agree with a cost-push theory of inflation instead of a demand pull-theory of inflation. It is like conversion.

Lonergan’s economics, understood in the context of his epistemology, his metaphysics and his theology, shifts the paradigm so that history is made by morally responsible human agents. Economics is reframed by the paradigm shift. For example, while Lonergan’s surplus expansion may appear to be superficially similar to capital accumulation driven by mechanical forces beyond human control, it is paradigmatically different. In Lonergan’s surplus expansion human agents are responsible for their actions. Economic actors whose duties call for them to administer surplus resources see the need to reinvest surplus in order to augment productive power. In case of moral failure, the human agents may be irresponsible. They may squander talents. In either case history is not an inhuman process driven by material forces. Seen in this light, Lonergan’s detailed work in economics can be regarded as designed to fill in intellectual and technical gaps that need to be considered if we are to implement a paradigm of responsible solidarity.

Some of these gaps can be identified in the typical limitations that arise in attempts to achieve social justice within a modern liberal institutional and intellectual framework, and the ways Lonergan’s perspective offers an alternative. We refer here to the research on the dilemmas of social democracies, taking as an example certain illusions that became apparent in (but not only in) the Swedish model of development. For three decades after World War II Sweden was widely regarded as a successful example of poverty elimination that could be replicated worldwide. Three such illusions are:

The planning illusion. “The victims of the planning illusion overestimate the power of government.” Gunnar Myrdal a leading Swedish economist of the epoch, expressed widely held views when he tended to attribute Sweden’s success to planning, and actively participated in United Nations’ workshops for third world leaders held around the world to teach planning. In reality, plans by governments neither explained the special historical circumstances that produced Swedish
prosperity, nor proved able to lift the third world out of poverty. We have been suggesting that Lonergan provides a deeper account of what moves human action in general and economic activity in particular, which opens vistas promising to overcome the limitations of the planning illusion.

Illusions regarding the determination of profit. Swedish economists writing at the peak of the success of the Swedish model tried to explain restraint by management and by labor at the bargaining table: the former not making extreme demands regarding profits and the latter not making extreme demands regarding wages. Using strictly positivistic methods, they saw no need to cast the problem in terms of the responsibilities of human agents, nor much less in terms of education and conversion leading to intelligent devotion to the good. Events belied their optimism. Responsible conduct was more engrained in Swedish cultural traditions, available up to a point to restrain naked self-interest, than intellectually understood by Swedish economists. As it turned out, there was not enough of it. We are suggesting that Lonergan offers an explicit focus and a rational account of what was not well understood by Swedish economists at the time, and what proved in the end to be crucial.

An illusion is a false appearance. One sees what is not there, or does not see what is there. In the case of Sweden’s difficulty in managing, and its failure to successfully export, its way of coping with conflicts regarding profits, there was both seeing what was not there and not seeing what was there. Economists saw a self-regulating process that was not there. Their positivist research methods gave them no conceptual tools for seeing the tendencies toward responsible conduct that were there. Lonergan’s generalized empirical method brings into focus something very relevant that needed to be seen in the Swedish context of the 1970s, and needs to be seen in economics in general: the concrete realities of intelligent understanding, rational judgments, ethical decisions and religious meaning.

Illusions regarding power over capital. It is a common belief, which we take the liberty of calling an illusion, that capital confers upon its owners a decisive “power” to shape human events. We want to suggest that Lonergan is among the scholars who contribute to helping us to see
through the illusion. His circulation analysis with its diagrams where every quantity depends on every other quantity, and its prose accounts of interrelated circuits, underlines a point classically articulated previously by Leon Walras and Joseph Schumpeter: in an economy everything depends on everything else. There is no point at which some actor has “power” to bend the actors at all the other points to her or his will.

We can illustrate a question about power over capital, and set the stage for identifying a dimension a Lonerganian perspective adds, by relating an incident—again from Sweden in the years after World War II. We believe similar incidents could be related from many other times and places. Pension funds controlled by labor unions made major portfolio investments in shares of Swedish corporations. It was widely believed that if the process continued control of Swedish industry would pass to organized labor. As it turned out, however, the directors elected with the votes of labor-owned shares acted in the same way as the former directors. They read the same reports, analyzed the same options, and used the same criteria to make decisions.23

Lonergan surely was among those who were not surprised. In a complex system in which everything depends on everything else, changing personnel at any given point in the system is not likely to make a major change in the way the system works. We have been suggesting, however, that even though Lonergan is in some ways a successor of Walras and Schumpeter, and in some sense stands on their shoulders, his life work adds another dimension: the restoration of the moral authority of reason.

We want to suggest that even though it made little difference to have labor representatives on the boards of Volvo and Saab, it would have made a bigger difference if the new directors had brought with them a commitment to social and ecological responsibility. This would have been the case whether the directors had been elected by pension funds controlled by labor unions or by ordinary shareholders. It would have made a difference even though the system is complex and interconnected. Although human events are not reshaped by changing the identity of players who continue to play the same game, human events can be reshaped by understanding the very idea of reason as implying judgment, decision, and
responsibility to a wider community and a higher authority.

Lonergan’s perspective helps us to see through illusion. We cease to see things that are not there: like change in the character of business wrought by a power struggle determining who has control over capital. We see something that should be there and sometimes is there: human responsibility in a world mediated by meaning and value. Lonergan’s contributions to dispelling illusions make manifest something broader and more general: Economics as we know it lives and moves and has its being in an intellectual context where the authority of reason has been lost. Lonergan’s reconstruction of economics lives and moves and has its being in an intellectual context where the authority of reason has been regained.

A concluding remark on education

Lonergan’s economics requires and facilitates a cultural shift to overcome illusions and restore the authority of reason. Its point and purpose can only be grasped within an intellectual framework where human agency is ordered toward ethically valid ends, and in which rational deliberation in general is ordered toward making responsible decisions. “Responsible” is not used by Lonergan merely in the negative sense in which a wrong-doer is responsible for compensating the victim for damage caused, but also in the positive sense of intelligent devotion to the good. The question concerning what we can do to contribute to the required cultural shift toward positive responsibility can be regarded as an educational question. This is where Lonergan’s views on economics connect with his views on the need for an accompanying educational program.

Lonergan’s whole approach is educational in the sense (among others) that it strengthens the role of reason as guide to conduct at the level of the individual human being and at the level of the organized human group. His philosophy could, for example, reorient the whole field of organizational theory by revising its systemic assumptions on learning, capital and knowledge. By restoring the authority of reason Lonergan
enthrones a higher power that in practice mitigates and in principle eliminates the struggles of the lower powers (the human beings regarded as untutored animals) to determine who will dominate whom and consequently who will prosper at whose expense. The processes leading to the recognition of reason’s authority and toward its application to building community can be seen as educational processes. Education is constitutive of community; it makes a community what it is. It forms the norms and values that constitute rationality and responsibility. In authentic education students and teachers evaluate tradition in the light of intrinsic and transcendental norms. They participate in the reconstruction and transformation of the community’s life. Educating the desire to know, “leading it out” as educare the Latin root of the term “education” suggests, culminates in responsible action in all spheres of life.

Notes

1 Bernard Lonergan, Writings in File 713 (1933-1938), unpublished material in the Archives of the Lonergan Research Institute, Toronto, Canada.
3 Andrés Monares, Reforma e Ilustración: Los Teólogos Que Construyeron la Modernidad. (Reform and Enlightenment: The Theologians Who Constructed Modernity) (Santiago, Chile: Universidad Bolivariana de Chile, 2005).
7 B. Lonergan, Writings in File 713 (1933-1938).
9 B. Lonergan, Vol. 3 of CWL, 314.


