

## Catholic Social Teaching and Economics in Dialog: The Problem of Virtue

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**Abstract:** This chapter explores the challenge of dialog with economics when much of economic analysis is unable to incorporate neo-Aristotelian virtue. Practical wisdom, and all of the virtues, are made necessary by contingency – the irreducible singularity of circumstance in which people must act. Formal accounts of human action abstract away from contingency, modelling it as analytically tractable *probability*. A reliance on preference optimization and its assumptions about knowledge appears to be the most important barrier to neo-Aristotelian virtue in economics. The social preference literature incorporates virtue in the form of Humean moral sentiments, but these are not the practical virtues of the neo-Aristotelian tradition. The chapter ends with advice on how to make use of social science models while avoiding their blind spots.

There is no distinct theory or substantial research explicitly addressing the role of virtues for economic decisions and actions within mainstream economics .... This is not an accidental neglect but reflects a systematic inability of economics to address virtues.  
– Christian Becker, “Aristotelian Virtue Ethics and Economic Rationality”<sup>1</sup>

In *Centesimus Annus*, John Paul II put forward CST as an interdisciplinary nexus, in which the various “disciplines concerned with man” could be brought into a practical dialog. CST “assimilates what these disciplines have to contribute, and helps them to open themselves to a broader horizon, aimed at serving the individual person who is acknowledged and loved in the fullness of his or her vocation.”<sup>2</sup> To “assimilate what these disciplines have to contribute,” CST must develop an appreciation for both the strengths and the weaknesses of the various social sciences. I have argued before that the insights of economics deserve more attention, and a more respectful hearing, from CST and moral theology.<sup>3</sup> Nevertheless, even as John Paul II expresses hope that CST will “assimilate” economic insights, he expects the exchange to open economics

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<sup>1</sup> Christian U. Becker, “Aristotelian Virtue Ethics and Economic Rationality,” in Baker and White, *Economics and the Virtues*, p. 18.

<sup>2</sup> John Paul II, Encyclical Letter *Centesimus Annus* (1 May 1991), para. 59.

<sup>3</sup> Andrew M. Yuengert, “Roman Catholic Economics,” in *The Oxford Handbook of Christianity and Economics*, ed. Paul Oslington (Oxford: Oxford University Press, 2014), 153-176; “What Can Economists Contribute to the Common Good Tradition?” in *Empirical Foundations of the Common Good: What Theology Can Learn from Social Science*, ed. Daniel K. Finn (Oxford: Oxford University Press, 2017), 36-63.

“to a broader horizon.” Economics has practical blind spots which CST ought to take into careful consideration when considering the insights of economics. This chapter<sup>4</sup> explores a primary shortcoming of economics as a guide for practical action: its treatment of virtue. Much of economics’ quantitative analysis has no place for virtue. There are important exceptions to this assertion, in recent work on behavioral economics, and in research on character and human capital. Even in those cases where economics incorporates something like virtue into its analysis, however, the economic version of virtue often bears little resemblance to neo-Aristotelian virtue.

There is growing interest in the virtues in economics. Luigino Bruni and Robert Sugden have argued for more attention to the virtues associated with market exchange, and for a recognition of the role of *fraternity* in economic relations.<sup>5</sup> A recent volume edited by Jennifer Baker and Mark White offers a set of reflections on and analysis of how economics fails to address the virtues, and how it might incorporate virtue into its inquiries.<sup>6</sup> A chapter by Michael Baumann and Geoffrey Brennan pays particular attention to the implications of virtue for economics.<sup>7</sup> The examples at the end of this chapter, which illustrate how one might draw on the insights of economics in spite of its blindness to virtue, are drawn from my own contribution to the Baker and White volume.<sup>8</sup>

Although there is some overlap between the analysis in this chapter and that of the recent literature on economics and virtue, my concerns in this chapter are more narrowly focused. The

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<sup>4</sup> This paper is a chapter in a draft manuscript of a book – *Prophecy and Praxis: Practical Wisdom and Catholic Social Teaching* – which is currently under review.

<sup>5</sup> Luigino Bruni and Robert Sugden, “Reclaiming Virtue Ethics for Economics,” *Journal of Economic Perspectives* 27, no. 4 (2013): 141-164; Luigino Bruni and Robert Sugden, “Fraternity: Why the Market Need not Be a Morally Free Zone,” *Economics and Philosophy* 24, no. 1 (2008): 35-64.

<sup>6</sup> Baker and White (eds.), *Economics and the Virtues*.

<sup>7</sup> Michael Baumann and Geoffrey Brennan, “On Virtue Economics” in Baker and White, *Economics and the Virtues*, 119-140.

<sup>8</sup> Andrew M. Yuengert, “The Space Between Choice and Our Models of It: Practical Wisdom and Normative Economics,” in Baker and White, *Economics and the Virtues*, 165-184.

literature itself draws on a variety of virtues traditions (Aristotelian, Stoic, Humean, Kantian), under the general term *virtue ethics*. My concern here is the *Catholic* virtue ethics tradition, which is rooted firmly in neo-Aristotelian virtue ethics. Some of the concerns I raise about the ability of economics to capture the notion of neo-Aristotelian virtue do not apply with the same force to Stoic, Kantian, or Humean virtue.

For the last century, since economics took a turn toward rational choice, the discipline has had no category for virtue. More recently, several new areas of economic inquiry have developed in ways that make it possible to incorporate virtue; the defining characteristic of these new fields is their willingness to modify or abandon the rational choice model, and with it the assumption that choice is unproblematically welfare-revealing. When engaging these new fields, those speaking for CST should be aware that the virtues on display are not identical to those of the neo-Aristotelian tradition. There are other *virtues traditions* in which virtue plays a less central role, and in which persons are either passive recipients of virtue or uninterested in it.

In light of the absence of virtue in much of economic analysis, and the truncated representation of virtue in those parts of economics which are open to the concept, how should CST come prepared for dialog? How can we take advantage of the real insights of economics, and at the same time exercise appropriate skepticism of conclusions based on its incomplete account of human agency and the virtues? The first requirement is that we be aware of the deficiency. The second is that we should distrust normative claims based purely on the choices of consumers: without virtue, we do not always choose what is best for us. Third, the plans and policies of economists ought to leave room for virtue, even when those plans cannot incorporate virtue explicitly. The ability to take into consideration what you do not know, and what you may overlook in your deliberations, is a key component of practical wisdom.

## 1 How Good a Map?

Economists often invoke map analogies to explain the logic of their simplified models. Maps are simplified schematics of reality whose value lies in simplification. A map that showed everything in a landscape would be a barrier, not an aid, to navigation. Economists often simplify their models of markets and society by assuming that individuals are rational optimizers, whose behavior is made predictable by the stability of their preferences and the consistency of their optimizing method. Because the economic account of individual motivation and behavior is simplified, economics is able to explore its primary interest, the complex interaction of agents in institutions: how do institutions order exchange, and how do institutions themselves evolve?

Not all maps are equally good. A map is only as good as its simplifications are tailored to the task at hand. A road map may be excellent for navigation by car but insufficient for visualizing the drainage patterns in a city. As economics developed into its modern positivistic form, refining its theoretical methods to integrate rational choice assumptions into its analysis, the Popes began to critique the economic map. Paul VI, in *Octogesima Adveniens*, directly targeted the abstractions of social science (including economics). His caution, quoted in the last chapter, bears repeating:

Methodological necessity and ideological presuppositions too often lead the human sciences to isolate, in the various situations, certain aspects of man, and yet to give these an explanation which claims to be complete or at least an interpretation which is meant to be all-embracing from a purely quantitative or phenomenological point of view.... To give a privileged position in this way to such an aspect of analysis is to mutilate man and, under the pretext of a scientific procedure, to make it impossible to understand man in his totality.<sup>9</sup>

Paul VI does not reject the contributions of the social sciences; rather, he embraces them: “the Church has confidence in this research also and urges Christians to play an active part in it.”<sup>10</sup> At

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<sup>9</sup> Paul VI, Apostolic Letter *Octogesima Adveniens* (14 May 1971), para. 38.

<sup>10</sup> *Ibid.*, para. 40.

the same time, Paul VI insists that the social sciences are “at once indispensable and inadequate for a better discovery of what is human.”<sup>11</sup> If social scientists do not evaluate their theories against the backdrop of Christian anthropology, their unchallenged abstractions may become intellectual blinders. An unwary economist, for example, might be “first attracted by and then imprisoned within a system whose limitations and totalitarianism may well become evident to him too late, if he does not perceive them in their roots.”<sup>12</sup>

The economic account of human nature is “mutilated” by the absence of the virtues – especially practical wisdom, the virtue by which humans decide how to act and order their lives. To explain this absence, and to evaluate its consequences, it is necessary to do more than document it. The virtues are absent from most economic analysis because the virtues perform no function within the economic approach; the virtues are not an answer to any question economics is asking. Consequently, if we begin with the economic framework we will be unable to see the point of the virtues: they will seem an irrelevant imposition, unrelated to the goals of economists. To understand why virtue is crucial to neo-Aristotelian ethics, and is unimportant or irrelevant to economic analysis, we must begin with the neo-Aristotelian worldview, which places the virtues at the center, as anything but irrelevant. Only then will the importance of virtue, and the reasons for its exclusion from economics, become evident.

## 2 The Moral Landscape of Neo-Aristotelian Ethics

Let this serve as an outline of the good; for we must presumably first sketch it roughly, and then later fill in the details. – Aristotle, *Ethics*<sup>13</sup>

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<sup>11</sup> Ibid., para. 40.

<sup>12</sup> Ibid., para. 36.

<sup>13</sup> *Ethics*, 1.7.

Economists and neo-Aristotelians have substantially different goals when they analyze human behavior. Unsurprisingly, they ask different questions, and evaluate their respective frameworks against these different goals. The neo-Aristotelian framework, motivated by a desire to describe both human happiness and politics, may be too broadly conceived to support the narrow focus of economics on quantitative analysis and measurement. Alternatively, the positivistic economic framework is an unsatisfactory support for a neo-Aristotelian moral project. If we want to understand the blindness of economic method to the virtues, and how and whether that blindness may be addressed, we need to outline the moral landscapes of both neo-Aristotelian thought and economics, and compare them.

Economists may object that the adjective *moral* denies the value-neutrality of economic method. An economist laboring through a consistency proof for a new estimator, or supervising the next wave of a panel study in Ghana, is engaged in technical practice. The day-to-day tasks which dominate her time, considered in themselves, are not *moral*. Although I have explored elsewhere the ways in which economic method is technical and how it is not,<sup>14</sup> the moral landscape of economics sketched here does not call into question the positive-normative distinction. It is a *moral* landscape because its goal is some practical action – in this case, policy formulation.<sup>15</sup> To the extent that economics seeks to answer questions which are of interest to policymakers, and evaluates its own positive analysis in light of policy implications, it is embedded within a moral framework, however neutral its technical practice.

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<sup>14</sup> Andrew M. Yuengert, *The Boundaries of Technique: Ordering Positive and Normative Concerns in Economic Research* (Lanham, MD: Lexington Books, 2004).

<sup>15</sup> This use of the term *moral*, indicating what contributes to the good life, is characteristically neo-Aristotelian. The more common meaning of the term *moral*, denoting the requirements of externally-imposed duties or rules, is characteristic of more analytic moral philosophies.

Our sketch of the moral landscape of neo-Aristotelian thought builds on a three-part scheme outlined by Alasdair MacIntyre in *After Virtue*.<sup>16</sup> MacIntyre's first two elements identify a gap between human beings as they are and as they could be; his third element is advice about how to bridge the gap. His scheme provides a useful starting point, but the differences between economic and neo-Aristotelian approaches are more evident when we add two more elements. The scheme outlined below includes MacIntyre's three elements (as elements one, three, and four). I have added element two (a description of the decision environment which makes virtue necessary), and a fifth element, suggested by Dorothea Frede, describing the political context.

1. A description of "human-beings-as-they-happen-to-be": animals who think.<sup>17</sup>
2. A description of the environment within which human beings live and act: contingency.
3. A description of "human-beings-as-they-could-be-if-they-realized-their-*telos*," or their "essential nature": virtuous.<sup>18</sup>
4. An understanding of how to transition from element one to element three: upbringing, reflection, and guidance in community.<sup>19</sup>
5. How the laws and institutions of "a-political-community-at-its-best" provide conditions for humans to become as-they-should-be-if-they-realized-their-essential-nature: political practical wisdom.<sup>20</sup>

Chapters two and five explored these elements in detail.

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<sup>16</sup> Alasdair MacIntyre, *After Virtue*, 2<sup>nd</sup> ed. (Notre Dame, IN: University of Notre Dame Press, 1984), pp. 52, 54.

<sup>17</sup> *Ibid.*, p. 52.

<sup>18</sup> *Ibid.*, pp. 52, 54.

<sup>19</sup> *Ibid.*, p. 52.

<sup>20</sup> Dorothea Frede, "The Historic Decline of Virtue Ethics," in Daniel C. Russell, ed., *The Cambridge Companion to Virtue Ethics* (Cambridge: Cambridge University Press), p. 136. MacIntyre argues that the decline of virtue ethics was precipitated by the rejection of element three, of the possibility of discovering an essential nature capable of ordering the quest for human flourishing. Frede suggests that the decline is traceable not to the decline in the idea of a discoverable human nature, but in a catastrophic loss of faith in the political conditions which make the moral scheme practically possible. By including this fifth element I am not taking sides on the cause of the decline of virtue ethics. The fifth element enables us to make a better comparison between the orientation of virtue ethics and the orientation of economics.

## 2.1 Human-Beings-as-They-Happen-to-Be

But any ethics meant to be practical – and virtue ethics is certainly meant to be practical – requires us to eventually meet agents where they are.  
 – Jennifer Baker, “Economic Good as Indifferent”<sup>21</sup>

Humans are animals who think about what they are doing, reflect on it, and give accounts of their actions.<sup>22</sup> In human-being-as-they-happen-to-be, deliberation and action are not the outcomes of abstract practical reason; instead, they result from the dynamic interaction of (and conflicts among) reason, will, and passion.<sup>23</sup> In this interaction each element of the triad can affect the others. Passion can impede reason, making it difficult to reflect on anything except what is pleasant or painful at the moment; passion can also influence the will directly. The will can moderate the passions, and can direct the attention of reason toward some courses of action and away from others. Reason can inform and direct the will, and can even influence passion: as Martha Nussbaum notes, our passions are often infused by reason.<sup>24</sup>

Human-beings-as-they-happen-to-be are also creatures of habit. Repeated actions leave a mark in character; they make the same actions easier in the future, and opposing actions more difficult (for better and for worse).<sup>25</sup> We can reason about, and consciously adopt, these dispositions.<sup>26</sup> Those dispositions to act which result from conscious repetition we call habits. Good habits (as judged by the reason) we call virtues; bad habits we call vices.<sup>27</sup> Reason makes

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<sup>21</sup> Jennifer A. Baker, “Economic Good as Indifferent: The ‘Stoics’ Radical Approach,” in Baker and White, *Economics and the Virtues*, p. 55.

<sup>22</sup> *Ethics*, 6.2.

<sup>23</sup> See Eleonore Stump, *Aquinas: Arguments of the Philosophers* (London: Routledge Press, 2003), p. 279.

<sup>24</sup> See Martha Nussbaum, *Upheavals of Thought: The Intelligence of Emotions* (Cambridge: Cambridge University Press, 2003). For example, we are often happy for particular reasons (“my husband is a faithful man”), and a change in knowledge affects our emotional state (“my husband is cheating on me”).

<sup>25</sup> *ST I-II*, 51.2.

<sup>26</sup> *ST I-II*, 50.3.

<sup>27</sup> *ST I-II*, 54.3.



these judgments against the standard of element three of the moral scheme, human-beings-as-they-could-be-if-they-realized-their-essential-nature.

## ***2.2 The Decision Environment: Contingency***

Deliberation is concerned with things that happen in a certain way for the most part, but in which the event is obscure, and with things in which it is indeterminate.

– Aristotle, *Ethics*<sup>28</sup>

The neo-Aristotelian landscape’s first element (its description of human-beings-as-they-happen-to-be) already provides clues to element three, the constitution of human-beings-as-they-could-be-if-they-realized-their-essential-nature. In the dynamic competition between reason, will, and passion over the direction of action, the neo-Aristotelian account suggests that reason ought to be in the driver’s seat in healthy, flourishing human beings. To act well as a human being is to make good use of the human ability to critically reflect on proposed courses of action.

That reason should be the measure of action and of our dispositions to act (of virtue and vice) is evident to Aristotle in the unique human propensity to reflect on, evaluate, and attempt to guide will, passion, and habits in the light of reason.<sup>29</sup> According to Aristotle, that reason is not regnant in most individuals is easily confirmed by observation: “Now the mass of mankind are evidently quite slavish in their tastes, preferring a life suitable to beasts.”<sup>30</sup> Catholic theology attributes the disorder among will, passion, and reason to original sin, which strengthens passion and makes the will unruly through pride.<sup>31</sup>

A full account of the disorder between reason, will, and passion requires a description of the environment which confronts any practical decision. In the neo-Aristotelian moral scheme, this

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<sup>28</sup> *Ethics*, 3.3

<sup>29</sup> *Ethics*, 2.6.

<sup>30</sup> *Ethics*, 1.5.

<sup>31</sup> *ST I-II*, 82.1, 82.3.

environment is characterized by pervasive *contingency*. Human action is an attempt to realize universally recognized goods in concrete circumstances, and every circumstance is singular.<sup>32</sup> The context facing a decision maker may be similar to those in his and others' experiences, but the differences may be crucial, frequent, and pervasive (they are not infrequent "black swans").<sup>33</sup> Contingency opens up a practical space in which unruly passion can cause the most mischief, and in which the interaction between passion, will, and reason is more likely to go awry.

Chapter two introduced neo-Aristotelian contingency, and observed that technical models of decision making abstract away from contingency. The function and exercise of practical wisdom, and through it all of the moral virtues, is shaped by the contingency which it must confront. The elimination of contingency in technical approaches (in which probability distributions substitute for contingency, and the assumptions necessary for quantitative measurement are unproblematic) explains the absence of virtue in economics, whose rational choice model is quintessentially technical. Four essential differences between practical wisdom and technical decision making result from contingency: in the face of contingency, practical wisdom 1) must deliberate about both means and ends; 2) is both an intellectual and moral virtue; 3) takes its most excellent form when passion, will, and reason cooperate in an easy *connatural*ity; and 4) is personal – poorly described as a technical *decision problem*.

Nevertheless, the need to confront contingency generates a fifth difference between practical wisdom and economic rationality: virtue's creativity. The crucial challenge for practical wisdom, as Aristotle describes it, is to identify "the ultimate particular" – to identify the general good that can be instantiated in uncertain, chaotic, concrete circumstance.<sup>34</sup> Aquinas, in his discussion of

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<sup>32</sup> *ST II-II*, 47.3.

<sup>33</sup> John Bowlin, *Contingency and Fortune in Aquinas's Ethics* (Cambridge: Cambridge University Press, 1999), pp. 60-66.

<sup>34</sup> *Ethics*, 6.8.

the “quasi-integral” parts of practical wisdom, offers a more detailed list and description of the creative virtues made necessary by contingency: solicitude, understanding, shrewdness (which involves a “happy conjecture”), circumspection, and foresight.<sup>35</sup> These virtues are fully understood and justified *as virtues* only in a contingent environment.

The creativity of virtue in response to the surprises cast up by contingency is a common theme in discussions of virtue in general, as well as in related discussions of excellence in skilled crafts and performance. Julia Annas, in *Intelligent Virtue*, incorporates creative engagement with contingency into her definition of virtue.<sup>36</sup> Kevin Flannery, in his analysis of the Aristotelian structure of Aquinas’s presentation of practical wisdom, describes virtue’s discernment of and engagement with contingency as akin to artistic creativity.<sup>37</sup> Michael Polanyi does not address virtue as such, but takes the need to grapple with contingency seriously. He characterizes the ability of tacit knowledge to read and adjust to contingency as a sort of “connoisseurship.”<sup>38</sup>

### ***2.3 Human-Beings-as-They-Could-Be***

People often say to new parents that they wish their child “every happiness.” They don’t mean “I wish your child a future of mostly good moods, whether it actually has a good life or not.” – Daniel C. Russell, “Virtue Ethics, Happiness, and the Good Life”<sup>39</sup>

No one can describe this third element of the moral landscape – a description of human-beings-as-they-could-be-if-they-realized-their-essential-nature, or *telos* – without taking a stand on the essential nature of human beings. In the neo-Aristotelian tradition, to be *good at being human* is

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<sup>35</sup> *ST* II-II, 47.9, 49.2, 49.4, 49.6, 49.7.

<sup>36</sup> Julia Annas, *Intelligent Virtue* (Oxford: Oxford University Press, 2011), p. 15.

<sup>37</sup> Kevin Flannery, S.J., *Acts Amid Precepts: The Aristotelian Logical Structure of Thomas Aquinas’s Moral Theory* (Washington, DC: Catholic University of America Press, 2001), p. 14.

<sup>38</sup> Michael Polanyi, *Personal Knowledge: Towards a Post-Critical Philosophy* (Chicago: University of Chicago Press, 1958), p. 81.

<sup>39</sup> Daniel C. Russell, “Virtue Ethics, Happiness, and the Good Life,” in Russell (ed.), *Cambridge Companion to Virtue Ethics*, p. 11.

to act in a characteristically human way – as animals who reason about what they are doing and why. As animals we have wills and passions, and these are not blotted out by our reason. Nevertheless, human will is not mere animal appetite; it is a *rational appetite*, informed by and working in concert with reason.<sup>40</sup> Even the passions begin to align with and support the judgements of reason as a person grows in virtue.<sup>41</sup>

The more virtuous one becomes, the more one's reason, will, and passions work together to discern the good in contingent circumstance and to carry it out. To the virtuous, there is a natural fit between good action and human nature, *felt* as much as rationally discerned. This fit is *connaturality*, described in chapter two. In this finished state, the identity between virtue and flourishing becomes clear. The virtues themselves become ends in themselves; they cause the actions which realize a humanly good life.<sup>42</sup> The goods realized by virtuous human action are no less important, but their connection to the dispositions by which they are realized in action become inseparable from their achievement. Alasdair MacIntyre demonstrates this close connection between good outcomes and virtuous dispositions in his description of the goals of medical education. Someone who wishes to heal patients will want to become a *good doctor*; a good doctor has the knowledge and habits by which patients are healed, and patients are healed by good doctors. To claim that someone who wishes to become a good doctor wants *only* to become a good doctor (and does not care about the outcome of healing patients) is to misunderstand the knowledge and habits of good doctoring.

In the same way, to claim that seeking the virtues for their own sake will cause one to lose sight of the ends of human life is to misunderstand virtue and its necessary connection to

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<sup>40</sup> *Ethics*, 1.13.

<sup>41</sup> *ST I-II*, 1.7.

<sup>42</sup> On virtue as a cause, and its intrinsic value, see Baurmann and Brennan, "On Virtue Ethics," pp. 120-123.

humanly good outcomes. The intrinsic value of virtue is not arbitrary; it is closely connected to the contingent environment in which humans must operate, to the ways reason, will, and passion interact in human action, and to the necessary role of virtues in realizing human goods.

#### ***2.4 Realizing the Telos: Developing the Virtues***

We cannot understand what virtue is without coming to understand how we acquire it.

– Julia Annas, *Intelligent Virtue*<sup>43</sup>

The neo-Aristotelian moral scheme argues that it is better to live up to one’s human potential than to remain a human-being-as-you-happen-to-be. The movement from element one to element three requires growth in the virtues. The process by which people are formed in and grow in the virtues has already been discussed – briefly in chapter two, and at length in chapter five. The best way to begin to grow in virtue is through a good upbringing. Further growth in virtue requires experience of acting within a community of reflection, guidance, and formation. A virtuous person continues to grow, and contributes to the growth of others in community.<sup>44</sup>

#### ***2.5 Digression: The Personal Nature of this Scheme So Far***

For we are inquiring not in order to know what virtue is, but in order to become good, since otherwise our inquiry would have been of no use. – Aristotle, *Ethics*<sup>45</sup>

Aristotle’s *Nicomachean Ethics* has a twofold purpose: to encourage and help people to be happy (to develop the virtues), and to reflect on the political order in light of knowledge about human happiness. The first purpose (to understand how to become good) is embodied in the first four

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<sup>43</sup> Annas, *Intelligent Virtue*, p. 21.

<sup>44</sup> Daniel Daly points out that virtue ethics lacks a well-developed description of how one becomes virtuous, and argues that critical realism can provide sociological insight; Daniel Daly, “Critical Realism, Virtue Ethics, and Moral Agency,” in *Moral Agency within Social Structures and Culture: A Primer on Critical Realism*, ed. Daniel K. Finn (Washington, DC: Georgetown University Press, 2020), 89-100.

<sup>45</sup> *Ethics*, 2.2.

elements of the neo-Aristotelian moral landscape; the second purpose (to understand how to govern) is embodied in the fifth element, to which we turn now.

Before the loss of faith in human agreement on the nature of human happiness, this two-fold purpose was uncontroversial: governments ought to foster and encourage the happiness of their citizens. The collapse of agreement on what constitute human happiness, and the consequent undermining of all sources of moral authority beyond individual sentiment, has severed the connection between the first four elements and the fifth. Modern philosophy and social science are reluctant to take a firm stand on the nature of human flourishing, or at least to claim that their descriptions of elements one through four are true for all persons.

For this reason, it is worth pausing at this point to note the personal nature of the moral landscape so far. In the neo-Aristotelian moral scheme Aristotle's *Nicomachean Ethics* lays the groundwork for *The Politics*, but even if we do not reach element five (the political order), the first four elements have independent moral import. As Aristotle says in the epigraph at the beginning of this section, the purpose of the inquiry is *to become good*. Before Aristotle moves on to third-person analysis of how a ruler can make his subjects good through practically wise laws and institutions, he begins in the first person. *The Ethics* discusses the nature of deliberation about "what might be brought about by our own efforts,"<sup>46</sup> not what government might do for its citizens. When Aristotle opines that "it is no easy task to be good,"<sup>47</sup> he is referring to the arduous task facing the individual, not the state.

It is precisely this first person, personal nature of the neo-Aristotelian moral scheme that separates it most sharply from the economic landscape we will analyze in the next section. As long as economics, or any modern social science, remains at the level of general principles,

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<sup>46</sup> *Ethics*, 3.3.

<sup>47</sup> *Ibid.*, 2.9.

viewing human behavior from the outside, it will be unable to understand reason's operation at the personal level. As Stephen Everson notes in his description of Aristotelian psychology, the process of deciding what to do cannot be fully captured by attempts to predict what someone will do.<sup>48</sup> Martin Rhonheimer asserts that, because human intentions are not observable, that the reasonableness of first person accounts of action will always appear insufficiently rational from a third person perspective.<sup>49</sup> Servais Pinckaers captures the differences between first- and third-person perspectives in his distinction between moral knowledge, "which tries to grasp and understand action from an interior standpoint," and positivist knowledge, which views action from an external perspective, "as something to be done."<sup>50</sup> Moral and positivist knowledge can be brought together in "a fruitful alliance,"<sup>51</sup> but one cannot substitute for the other.

## ***2.6 The Political Community***

For surely he who wants to make men, whether many or few, better by his care must try to become capable of legislating, if it is through laws that we can become good.

– Aristotle, *Ethics*<sup>52</sup>

The fifth element moves us up a level, to the constitution of political orders; it asks which institutions and laws make a polity good, and its citizens virtuous. The virtue of *practical wisdom simple*, which suffices for a person to govern himself, is inadequate to the governing of a larger group. The head of a family needs *household practical wisdom*, and the ruler of a city needs *political practical wisdom*. The differences between practical wisdom simple and the kind

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<sup>48</sup> Stephen Everson, "Psychology," in *The Cambridge Companion to Aristotle*, ed. Jonathan Barnes (Cambridge: Cambridge University Press, 1995), 168-194.

<sup>49</sup> Martin Rhonheimer, *The Perspective of Morality: Philosophical Foundations of Thomistic Virtue Ethics* (Washington, DC: Catholic University of America Press, 2011), p. 54.

<sup>50</sup> Servais Pinckaers, OP, *The Sources of Christian Ethics*, trans. Sr. Mary Thomas Noble, OP (Washington, DC: Catholic university of America Press, 1995), p. 58.

<sup>51</sup> *Ibid.*, p. 62.

<sup>52</sup> *Ethics*, 10.9.

of practical wisdom exercised by the head of a household or the ruler of a city arise because “knowing what is good for oneself will be one kind of knowledge, but it is very different from the other kinds.”<sup>53</sup> Those who are responsible for the family or city have a more difficult task, since the good of the individual persons under their authority depends on their judgment.<sup>54</sup>

The virtues of good government (political practical wisdom) are nevertheless closely related to the virtues of the individual: element five in the moral landscape builds on elements one through four. Good government helps citizens to become and remain good (that is, virtuous); a good ruler is likewise virtuous. When crossing over from element four to five, we do not cross a Machiavellian gulf, in which what is good in elements one through four becomes bad or indifferent in element five. Character is as crucial to good government as it is to personal conduct. It is good for the state and for citizens that both rulers and citizens be virtuous.<sup>55</sup>

### 3 The Moral Landscape of Economics

Needless to say, economics does not operate within the broad framework outlined in section two. Element three (that human beings have a *telos* capable of ordering their actions toward happiness) is absent in the economic landscape, along with element four (guidance for transitioning from element one to three). Moreover, the descriptions of the remaining elements are substantially different. Economics is not alone in abandoning the Aristotelian scheme; indeed, when the modern discipline of economics developed in the nineteenth century the moral scheme had already been abandoned by philosophy and political theory.

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<sup>53</sup> *Ethics*, 6.8.

<sup>54</sup> *Ethics*, 6.8.

<sup>55</sup> For a fuller discussion of this point, see Susan Collins, *Aristotle and the Rediscovery of Citizenship* (Cambridge: Cambridge University Press, 2006), ch. 1, especially the discussion of Aristotle’s approach to law, education, and moral virtue.



Economics, however, is a dynamic discipline; ongoing innovations in its methods and subject matter render all attempts to generalize radically incomplete. In particular, developments in human capital research and behavioral economics have made economists more open to the practical inadequacies of human-beings-as-they-happen-to-be. We shall look at three innovative fields – one outside of behavioral economics, and two inside – and ask how close their virtue-like concepts come to neo-Aristotelian virtue, and in what ways they fall short. The differences stem from two sources. First, the moral landscape of economics is not as complex as the neo-Aristotelian landscape. In particular, economists are reluctant to specify an essential nature which humans fail to achieve, and to which they ought to aspire. Second, those elements of the moral landscape that economics shares with the neo-Aristotelian tradition differ substantially in their description.

### ***3.1 Neoclassical Economics***

For clarity, I will refer to the economic moral scheme outside of behavioral economics as *neo-classical*. In neo-classical economics, the five-element neo-Aristotelian moral scheme is reduced to three. I have kept the numbering from the previous section, to make comparisons with the neo-Aristotelian scheme clear:

1. A description of human-beings-as-they-happen-to-be: preference optimizers.
2. A description of the environment within which human beings act: quantifiable, probabilistic, and mathematically tractable.
3. ---
4. ---
5. The analysis of institutions and policies in light of elements one and two: efficient institutions.

Before behavioral economics challenged the unified, tidy neoclassical account of choice, element one was straightforward: human beings have well-defined (complete and transitive) preferences, and their choices maximize those preferences subject to constraints. This account does not call

into question the content of preferences; it takes for granted that agents are competent optimizers.<sup>56</sup> There is no level three. Consequently, there is no level four – no need to improve preferences or to make agents better optimizers. Neither is there any intrinsic value in the actions of the optimizing agent: whether a person evaluates and chooses the optimal bundle herself or has someone else choose for her does not matter, so long as the right bundle is chosen. Neo-classical economics assumes away the entire moral content of elements one through four taken together – as a framework for moral improvement. The only path toward the improvement of the human condition is through the relaxation of constraints on choice.<sup>57</sup>

Element two describes a decision environment which makes the decision problem mathematically tractable: each agent has knowledge of his preferences, and knowledge of prices, commodities, and income sufficient to identify a budget constraint. When the various components of the decision problem are risky, element one must be modified to justify expected utility maximization, and knowledge of the decision-making environment must include knowledge of the relevant probability distributions.

Many economists will reject my characterization of their *moral scheme* – both the description of its elements and the adjective *moral*. In its place, many would prefer a *positive* scheme:

1. A description of human-beings-*as-economists-happen-to-model-them*: preference optimizers.
2. A description of the environment within which agents act *as-economists-happen-to-model-it* (quantifiable, probabilistic, mathematically tractable).
3. ---
4. ---
5. The analysis of institutions and policies in light of elements one and two: efficient institutions.

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<sup>56</sup> The positing of fixed preferences, and the assumption that they are unproblematic, was part of a strategy by which social science attempted to become scientific and naturalistic. See Timothy Chappell, “Virtue Ethics in the Twentieth Century,” in Russell (ed.), *Cambridge Companion to Virtue Ethics*, 149-171.

<sup>57</sup> The purely instrumental value of choice is not a necessary result here. It is possible to incorporate the intrinsic value of choice into preferences.

When included with element five, the positivistic elements one and two acquire moral weight. The absence of elements three and four strips elements one and two of their personal moral force, but they have moral import for policy when they are taken as a good description of human well-being. When economists turn their attention to policy, most unreflectively adopt this positive framework as a foundation for normative judgments about well-being. Since I see little evidence that economists are aware of alternative normative frameworks, I think the moral scheme I have outlined here is a fair characterization.<sup>58</sup>

Element five specifies a policy goal consistent with elements one and two: to develop institutions and policies that allow individuals to optimize their preferences, without making any moral judgments on or attempting to transform those preferences. What makes this a *moral* scheme is the judgment (often taken for granted) that it would be a good thing if people were able to satisfy their preferences as far practically possible. What people happen to want, revealed by the choices they make, is normative. Public policy does not operate to change preferences. Neither is there any economic advice for individuals; individual agents are assumed to rationally and competently pursue their preferred outcomes. The substance of public policy action is to promote informed exchange, police market power, address externalities and coordination problems, and to promote economic growth through macro policy and free trade.

There is little room for virtue, as defined in the neo-Aristotelian tradition, in this scheme, for two reasons. First, there is no contingency. The neo-Aristotelian virtues are dispositions which help human beings to act in contingent environments. Contingency requires an intelligent creative response, both to discern what goods are possible, and to find what works in the pursuit

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<sup>58</sup> For a discussion of the tendency of economists to make preferences normative when they do not think through alternative theories, see Andrew M. Yuengert, *Approximating Prudence: Aristotelian Practical Wisdom and Economic Models of Choice* (New York: Palgrave Macmillan, 2012), ch. 2; “It’s Not So Bad to Have Limits, as Long as You Know Them: Economic Theory in Light of the Aristotelian Tradition,” *Faith & Economics* 64: 37-64.

of those goods. Moreover, since contingency makes preferences as well as constraints uncertain, it renders optimization radically incomplete as a description. Second, there is no essential nature to which human beings ought to aspire. Human beings are already all that they need to be – rational optimizers. Consequently, there is no need for virtue.

### ***3.2 Coming Close to Virtue: Non-cognitive Skills***

Although neo-classical models cannot incorporate neo-Aristotelian virtue, an important line of research in the neo-classical tradition investigates something close to virtue in the neo-Aristotelian sense. A large and growing literature on character as human capital, inspired by James Heckman and his collaborators,<sup>59</sup> identifies a range of “*non-cognitive skills* such as perseverance (‘grit’), conscientiousness, self-control, trust, attentiveness, self-esteem and self-efficacy, resilience to adversity, openness to experience, empathy, humility, tolerance of diverse opinions, and the ability to engage productively in society”<sup>60</sup> which predict success in labor markets, in education, and in other life outcomes.

The description and documented function of these traits makes them appealing (even if imperfect) proxies for virtue. Of all the recent innovations in economic theory and research considered in this section, non-cognitive skills come closest to neo-Aristotelian virtue. Neo-Aristotelian virtue is 1) a reasoned habit, 2) important to the individual (personal), 3) adapted to contingency, and 4) intrinsically valuable. The character traits in this literature are certainly

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<sup>59</sup> See James Heckman, Jora Stixrud, and Sergio Urzua, “The Effects of Cognitive and Noncognitive Abilities on Labor Market Outcomes and Social Behavior,” *Journal of Labor Economics* 24, no. 3 (2006): 411-482; James Heckman, James, “The Economics, Technology, and Neuroscience of Human Capability Formation,” *Proceedings of the National Academy of Sciences* 104, no. 33 (2007): 13250-13255; Flavio Cunha and James Heckman, “The Technology of Skill Formation,” *American Economic Review* 97, no. 2 (2007): 31-47; Tim Kautz, James J. Heckman, Ron Diris, Bas ter Weel, and Lex Borghans, *Fostering and Measuring Skills: Improving Cognitive and Non-cognitive Skills to Promote Lifetime Success*, National Bureau of Economics Working Paper 20749 (December 2014), Cambridge, MA.

<sup>60</sup> Kautz et al., *Fostering and Measuring Skills*, p. 2.

reasoned habits: they put one in a position to perform well at work, in school, and in life. Moreover, the way they are presented also makes them of personal value: one can easily accept the argument that you should foster them in yourself and instill them in your children. An important branch of research takes the personal value of these traits for granted, investigating the ways that parents and caretakers can be encouraged to instill both cognitive and non-cognitive skills in their children.<sup>61</sup> It is evident that these skills are good for the person possessing them, and not just for governments who have to foot the bill when those lacking these skills struggle in school, at work, and in life.

The virtues in this literature are not explicitly related to contingency. A habit becomes a virtue when it embodies reasoned judgments in contingent circumstances. Virtue tailors itself to each circumstance. Take the non-cognitive skill *conscientiousness*, for example. If one is always conscientious to the same degree, poring over every detail in all circumstances, conscientiousness becomes a bad habit (obsessiveness) in some situations. There is a *mean* in conscientiousness, and the truly conscientious person has the judgment to moderate it when appropriate. I may be overstating the deficiencies of non-cognitive skills in this regard. Many of the skills identified in this literature (resilience, trust, conscientiousness, and self-control, for example) are by definition flexible; they adapt to the surprises of contingency.

There is no attempt in this literature to argue for the intrinsic value of non-cognitive skills; they are valuable insofar as they promote successful outcomes. This shortcoming can be overcome: there is nothing in the definitions and ongoing theoretical and empirical work which precludes a case for the intrinsic value of non-cognitive skills.

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<sup>61</sup> Flavio Cunha, Irma Elo, and Jennifer Culhane, *Eliciting Maternal Expectations about the Technology of Cognitive Skill Formation*, National Bureau of Economic Research Working Paper 19144 (June 2013), Cambridge, MA.

The success of this literature in describing neo-Aristotelian virtue is due to its departure from the neo-classical moral landscape outlined above. These researchers come as close to neo-Aristotelian virtue as they do because they do not attempt to incorporate virtue into a preference-optimizing framework. Consistent with the methods of the human capital literature, this research program incorporates non-cognitive skills into production functions, as a form of human capital. These skills are not treated as arguments in utility functions. Consequently, economists are free to examine the connection between non-cognitive skills and economic outcomes without intervening assumptions about the competence of agents to choose rationally. They can argue that non-cognitive human capital improves labor market, educational, and life outcomes without having to mediate those outcomes through preferences. As a result, there is an implicit insertion of an element three into the moral scheme: human beings-beings-as-they-could-be would possess non-cognitive skills, which many human-beings-as-they-happen-to-be lack. This research can imply the addition of element three because it is not does not have to justify a lack of non-cognitive skill as a preference, because it does not posit preference optimization explicitly.

### ***3.3 The Moral Landscape of Behavioral Economics: Two Cases***

Innovations from behavioral economics have brought back into economics concepts which bear some resemblance to the neo-Aristotelian virtues: fairness and altruism,<sup>62</sup> self-control,<sup>63</sup> and various kinds of self-management through commitment and investment in future tastes,<sup>64</sup> for example. Nevertheless, the *virtues* in behavioral economics are substantially narrower than the

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<sup>62</sup> Steven N. Durlauf and Lawrence Blume, *Behavioral and Experimental Economics* (New York: Palgrave Macmillan, 2010).

<sup>63</sup> Faruk Gul and Wolfgang Pesendorfer, "Self-Control and the Theory of Consumption," *Econometrica* 72, no.1 (2001): 119-158.

<sup>64</sup> Faruk Gul and Wolfgang Pesendorfer, "Harmful Addiction," *Review of Economic Studies* 74, no.1 (2007): 147-172; Drew Fudenberg and David K. Levine, "A Dual-Self Model of Impulse Control," *American Economic Review* 96, no.5 (2006): 1449-1476.

neo-Aristotelian virtues. Unlike non-cognitive skills, they cannot be called *virtues* in the neo-Aristotelian sense, although they resemble the virtues in the Humean tradition.

We shall divide the innovations of behavioral economics into two groups – *social preferences*, which affect motivation but do not introduce internal divisions or biases into choice, and *cognitive biases and internal conflict*, which introduce a gap between human-beings-as-they-happen-to-be and human-beings-as-they-could-be-if-they-realized-their-essential-nature. Both groups introduce concepts which, although they resemble neo-Aristotelian virtue, fall short in different ways.

### *Social Preferences*

Behavioral economists have documented unexpected cooperation and sharing in experimental prisoners' dilemmas, ultimatum games, and trust games.<sup>65</sup> To explain these anomalies, they have incorporated altruism, reciprocity, and fairness into preferences. Related research documents the effect of framing on social preferences – the crowding out or crowding in of altruism, for example.<sup>66</sup> Other research argues for preferences which include the intentions of others: strong reciprocity<sup>67</sup> and betrayal aversion,<sup>68</sup> for example.

It is tempting to think of virtue when confronted with social preferences - to recognize in fairness and reciprocity the virtue of justice, or in altruism a kind of benevolence. Nevertheless, it would be misleading to claim that economics has incorporated the concept of neo-Aristotelian

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<sup>65</sup> Colin F. Camerer, *Behavioral Game Theory: Experiments in Strategic Interaction* (New York: Russell Sage Foundation, 2003).

<sup>66</sup> Samuel Bowles, *The Moral Economy: Why Good Incentives are No Substitute for Good Citizens* (New Haven, CT: Yale University Press, 2016).

<sup>67</sup> Herbert Gintis, Samuel Bowles, Robert Boyd, and Ernst Fehr, *Moral Sentiments and Material Interests: The Foundations of Cooperation in Economic Life* (Cambridge, MA: MIT Press, 2005).

<sup>68</sup> Iris Bohnet, Fiona Greig, Benedikt Herrmann, and Richard Zeckhauser, "Betrayal Aversion: Evidence from Brazil, China, Oman, Switzerland, Turkey, and the United States," *American Economic Review* 98, no.1 (2008): 294-310.

virtue via the introduction of fairness, altruism, or reciprocity into preferences. Recall that neo-Aristotelian virtue is 1) a reasoned habit, 2) important to the individual (personal), 3) adapted to contingency, and 4) intrinsically valuable. In the behavioral literature, social preferences are psychological traits, but they are not reasoned – adopted by the agent to make his choices excellent. Neither are these preference traits personal, adapted to contingency, or valuable for their own sakes. As a part of preferences, sentiments of fairness or altruism are not informed by reason. Fairness, altruism, and reciprocity in preferences are inferred as facts from observed behavior; no argument is made that any particular person should seek to develop them as habits. Their presence or absence is of interest only to the researcher predicting behavior, or to the policy maker designing institutional constraints. In addition, these preference traits do not grapple with contingency. For example, fairness in preferences exerts its influence via a fixed formula, and has neither the flexibility nor the awareness of context characteristic of neo-Aristotelian justice. Finally, there is no way to argue for fairness, reciprocity, or altruism as intrinsically valuable. Their presence in some preferences and their absence in others is a fact. Having preferences for fairness or altruism may generate better or worse outcomes, but the preference traits themselves are not valued.

There is no need to alter the three-element neoclassical scheme of section 7.3.1 in light of social preferences. Although element one (human-beings-as-they-happen-to-be) is modified to include social preferences, the modification does not introduce a gap between human-beings-as-they-happen-to-be and human-beings-as-they-could-be. Some humans happen to have social preferences, and others do not. Element two, the decision environment, is still probabilistic. There is no need for element three, and consequently no need for advice about how to get from element one to three.



Element five (policy advice) is of course affected by the introduction of social preferences: changes in preferences affect agent responses to incentives and the specification of policies to promote efficiency in preference satisfaction. Changes in the preferences themselves are not a policy goal. Just as there is no element four (advice for how to add virtues, or change your preferences), the promotion of social preferences is itself not a concern of policy.

An important exception to this policy indifference about social preferences is the large literature on the crowding out of social preferences by incentives. When the introduction of incentives (fines, taxes, subsidies) affects the framing of a social problem, they can crowd out social preferences, creating obstacles to efficient cooperation and compliance. For example, fines for late school pickups can result in an increase in lateness if parents interpret the fines not as a punishment but as a fee.<sup>69</sup> In an environment like this, policy can affect whether preferences are social or not. Samuel Bowles, in *The Moral Economy*, offers an extended discussion of policy in light of the sensitivity of social preferences to incentives. He emphasizes the short run effects of policy on preferences, but acknowledges the more important long run effects, which operate through as-yet poorly understood evolutionary mechanisms.<sup>70</sup>

Bowles explicitly invokes Aristotle and David Hume as predecessors, but his focus on the evolutionary sources of social preferences (moral sentiments) and their implications for policy and institutions, as well as his neglect of their intrinsic value in human flourishing, place him squarely in the Humean tradition and in opposition to the neo-Aristotelian tradition. Paul Russell contrasts the Humean, neo-Aristotelian, and stoic virtue traditions.<sup>71</sup> Hume did not dismiss the importance of virtue, but was convinced that any account of it which emphasized its voluntary

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<sup>69</sup> Uri Gneezy and Aldo Rustichini, "Pay Enough or Don't Pay at All," *Quarterly Journal of Economics* 115, no.2 (2001): 791-810.

<sup>70</sup> Bowles, *The Moral Economy*, pp. 116-120.

<sup>71</sup> Paul Russell, "Hume's Anatomy of Virtue," in Russell (ed.), *Cambridge Companion to Virtue Ethics*, 92-123.

acquisition – of virtue as an individual, reasoned, and intentional goal of action – was a distraction from truer, more scientific accounts. In Hume’s view, a more scientific account of morality and virtue must investigate the genesis of virtue in social interaction, through the operation of sympathy and the passions. Moreover, virtues were important not for their value to persons, but for their role as a support for stable social life.

Hume’s approach to virtue, and the role it plays in his social theory, closely resembles Bowles’s approach. From this perspective, the virtues are valuable from a third-person, policy perspective. No individual will be motivated by this analysis to attempt to make his preferences more social, although it makes a case that policy makers ought to promote conditions which foster and preserve social preferences. Altruism, reciprocity, and fairness may support efficient market exchange and cooperation, but only those who design institutions have any motivation to promote them. In this literature, the lack of an independent value for social preferences – an argument that an individual should for his own happiness develop intelligently fair, altruistic, or reciprocal habits – leads to a policy regime in which social preferences and the individuals who possess them are manipulated to promote government goals whose rationale is not necessarily connected to the preferences themselves. The Humean tradition is non-personalist.

*Cognitive Bias, Internal Conflicts, and the Return of Humans-as-They-Could-Be*

The social preferences literature does not develop a neo-Aristotelian account of virtue, because it works within the theoretical constraints of preference optimization. Virtues are character traits whose genesis lies outside of human volition; they are developed by social forces, and can be shaped and affected by policy. In contrast, the behavioral literature on cognitive bias and internal conflict re-introduces a division between human-beings-as-they-are and human-beings-as-they-

could be, although its characterization of elements one and three differ crucially from the neo-Aristotelian scheme. The introduction of cognitive bias and internal conflicts disrupts the revealed-preference link between observed choice and underlying preferences. More accurately, it disrupts the previously-assumed link between the preferences revealed by choice and the well-being of the choosing agent. This adds a new complexity to element five; the goal of policy and institutional design is now to help people satisfy their preferences efficiently *in spite of* their biases, social preferences, and internal conflicts.<sup>72</sup>

Like all innovations, behavioral economics is disruptive; it has upended not only economic method, but the neoclassical moral scheme outlined above. These disruptions make it unwise to generalize; the methodological and policy implications are still being worked out, and it is unlikely that the behavioral revolution will produce a unified theoretical approach. Nevertheless, the field has already produced policy-oriented reflections on the new field's implications, most notably *Nudge*, by Richard Thaler and Cass Sunstein.<sup>73</sup> I base my modified sketch of the moral scheme of behavioral economics on these reflections.

The biases and internal conflicts highlighted in the behavioral literature make it necessary to bring back element three, although the substance of elements one and three differ starkly from those of the neo-Aristotelian scheme:

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<sup>72</sup> Colin Camerer, Samuel Issacharoff, George Loewenstein, Ted O'Donoghue, and Matthew Rabin, "Regulation for Conservatives: Behavioral Economics and the Case for 'Asymmetric Paternalism,'" *University of Pennsylvania Law Review* 1151, no. 3 (2003): 1211-1254.

<sup>73</sup> Richard H. Thaler and Cass R. Sunstein, *Nudge: Improving Decisions about Health, Welfare, and Happiness* (New Haven, CT: Yale University Press, 2008).

1. A description of human-beings-as-they-happen-to-be: cognitive biases, scarce cognitive resources, temptation and internal conflict.
2. A description of the environment within which human beings act: uncertainty about options and probability distributions.
3. A description of human-beings-as-they-could-be: preference optimizers.
4. ---
5. The analysis of institutions and policies in light of elements one, two, and three: efficient institutions, libertarian paternalism.

Although cognitive biases and internal conflicts force economists to bring back element three, its description is radically different from the description of the third element in the neo-Aristotelian scheme in section 7.2. Moreover, in a curious inversion of positive and normative, what *had been element one* in the neoclassical scheme, human-beings-*as-they-happen-to-be* (preference optimizers) has been *promoted to element three*, which is now human-beings-*as-they-could-be* (preference optimizers). What was purely descriptive in the neoclassical scheme has become the potential to be realized, the *telos*.<sup>74</sup>

The preservation of preference optimization as a description of the essential nature of human beings is incomplete in the behavioral account; default biases, for example, make it unclear what a person's *true* preferences are, and thus what a preference-optimizing outcome would look like.<sup>75</sup> Nevertheless, the method by which cognitive biases are discovered and documented suggests a baseline model of preference-optimization. In many cases this *telos* is assumed implicitly, through the assumption that more is better. Heuristics and herd behavior lead to distortions in perceived constraints and probability judgments which inefficiently reduce returns

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<sup>74</sup> The ease with which economists treat preference maximization as the measure of rational behavior against which actual behavior should be measured is evidence against the value-neutrality of positive models.

<sup>75</sup> For a discussion of this point and for a Kantian critique of behavioral economics, see Mark D. White, *The Manipulation of Choice: Ethics and Libertarian Paternalism* (New York: Palgrave Macmillan, 2013).

and shrink budget sets.<sup>76</sup> Overconfidence and loss aversion lead to inefficient choices.<sup>77</sup>

Temptation leads to opportunities for improved efficiency through commitment or restrictions on the budget set.<sup>78</sup> Dynamic inconsistency leads to a difference between a person's reflective preferences and his preferences at the point of action.<sup>79</sup> The more reflective preferences are treated as a person's *true* preferences.

Respect for preferences is evident in the definition of *libertarian paternalism*, a guiding principle in Thaler and Sunstein's *Nudge*. In this analysis, *libertarian* means that, "in general, people should be able to do what they like, and to opt out of undesirable arrangements if they want to do so."<sup>80</sup> *Paternalism* means that policy should try "to influence choices in a way that will make choosers better off, *as judged by themselves*."<sup>81</sup> Individual preferences may be difficult to discern, but they are still central to the behavioral approach, whose goal is to help people overcome their biases, to get what they really want "*as judged by themselves*."

By introducing a gap between observed behavior and preference-optimizing behavior, behavioral economics opens up opportunities for practical advice to help people make *better* decisions, and thus generates a set of ethical maxims for personal flourishing. There are indeed some advice columnists among behavioral economists – Dan Ariely being the most prominent.<sup>82</sup> However, personal advice based on economic research is usually an entertaining sideline, a way to make economic concepts more vivid in the classroom. Most economists do not aspire to moral

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<sup>76</sup> Daniel Kahneman, Jack L. Knetsch, and Richard H. Thaler, "Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias." *Journal of Economic Perspectives* 5, no. 1 (1991): 193-206.

<sup>77</sup> Stefano Della Vigna and Ulrike Malmendier, "Paying Not to Go to the Gym," *American Economic Review* 96, no.3 (2006): 694-719; David Genosove and Christopher Mayer, "Loss Aversion and Seller Behavior: Evidence from the Housing Market," *Quarterly Journal of Economics* 116, no. 4 (2001): 1233-1260.

<sup>78</sup> Gul and Pesendorfer, "Harmful Addiction."

<sup>79</sup> Fudenberg and Levine, "A Dual-Self Model."

<sup>80</sup> Thaler and Sunstein, *Nudge*, p. 5.

<sup>81</sup> *Ibid.*, p. 5.

<sup>82</sup> In addition to his weekly advice column in the Wall Street Journal ("Ask Dan"), see Dan Ariely, *Predictably Irrational: The Hidden Forces that Shape Our Decisions* (New York: Harper Books, 2008).

sagehood; there are certainly too few economist sages to justify a return of element four (advice for getting from element one to element three).<sup>83</sup>

Nevertheless, in the gap between elements one and three we can discern the language of vices (biases) which prevent preference optimization, and the corresponding virtues which promote preference optimization. Any list of vices and virtues in behavioral economics would include the vice of susceptibility to temptation and its corresponding virtue, self-control;<sup>84</sup> the vice of present bias and the virtue of the ability to commit;<sup>85</sup> habits as measured by stocks of past consumption.<sup>86</sup>

The *virtues* of this second group of behavioral models are framed against the mainstream model of behavior. They describe failures to live up to the quantitative descriptions of behavior in neoclassical economic theory: failures to discern well-defined preferences, to estimate probabilities, and failures to manage internal conflicts which pit long-term plans against short-term distortions in preferences. How do the virtues of this second group of behavioral models compare to the neo-Aristotelian virtues?

Recall that neo-Aristotelian virtue is 1) a reasoned habit, 2) important to the individual (personal), 3) adapted to contingency, and 4) intrinsically valuable. The behavioral virtues certainly have practical importance, helping people to improve their decisions. There is no clear role for reasoning about these virtues, however, either in their adoption or their exercise. It is true that an individual can reason her way to the conclusion that it would be better to overcome her cognitive biases and temptations, but there is no mean to be discerned by virtue. To see the

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<sup>83</sup> Economists have always given advice, at least in their teaching: ignore sunk costs, find your comparative advantage, take into account opportunity costs, etc.

<sup>84</sup> Gul and Pesendorfer, "Self-Control."

<sup>85</sup> Matthew Rabin, "Doing It Now or Later," *American Economic Review* 89, no. 1 (1999): 103-124.

<sup>86</sup> Gary S. Becker and Kevin M. Murphy, "A Theory of Rational Addiction," *Journal of Political Economy* 96, no. 4 (1988): 675-700; Gul and Pesendorfer, "Harmful Addiction."

contrast, consider the neo-Aristotelian virtue of temperance. A temperate person's appetites are guided by reason toward the right level of desire, causing her to be attracted to sensual goods to the appropriate degree – neither too much nor too little. The corresponding virtue in behavioral models (self-control) is first of all not something that the agent reasons about, deciding whether or not to develop it. Second, there is no mean in self-control. More self-control is always better in behavioral models; the agent who exercises perfect self-control will be immune to choosing a less desirable good because of temptation. Self-control is not temperance; it performs a much different function, and does not involve reason in its exercise.

The claim that the behavioral virtues are personal is defensible – the ability to overcome biases and inconsistencies in choice is certainly relevant to individual well-being – but it is underplayed by behavioral economists. Most of the examples given in behavioral economics (sunk-cost fallacies, menu dependence, time inconsistency) suggest actions on the individual level, but most of the implications are worked out at the level of policy and institutional design (element five). Economists suggest policies to “improve decisions” by helping people to overcome their biases, or to counteract them through appropriate incentives. In *Nudge*, Thaler and Sunstein discuss these interventions as exercises in “choice architecture.”<sup>87</sup>

None of these virtues addresses the effects of contingency – the need to evaluate and deliberate in an environment in which probability distributions are out of reach, in which uncertainty is incorrigible. As such, these virtues are more purely intellectual than the neo-Aristotelian virtues. Finally, the virtues which emerge from this analysis are not intrinsically

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<sup>87</sup> Thaler and Sunstein, *Nudge*, pp. 5-11. Matthew Crawford contrasts externally imposed “choice architecture” to shape behavior (*nudges*) with internally-imposed constraints which often serve the same function (*jigs*) and argues that jigs preserve human agency and identity, while nudges impede both agency and individuality. See Matthew Crawford, *The World Beyond Your Head: On Becoming and Individual in an Age of Distraction* (New York: Farrar, Straus, and Giroux, 2015).

valuable. Their only value lies in their contribution to preference optimization, which is still the purpose of choice. Agents in behavioral models are no worse off (and are sometimes better off) when someone else chooses for them, particularly if that person is not subject to cognitive biases and internal conflicts.

### ***3.4 What Economics Misses***

This section points out a crucial deficiency in economics as a partner in CST’s interdisciplinary project. Virtue is foundational in Aristotelian ethics, and plays a strongly-implied role in CST, but in most economic analysis there is little that resembles neo-Aristotelian virtue. It is debatable whether the exclusion of virtue from economic analysis is “ideological,” as Paul VI suggest in the quotation in section 7.1, but it is certainly “methodological.” To the extent that economics overlooks virtue, it will be unable “to understand man in his totality.”

Our examination of the moral landscapes of economics and neo-Aristotelian ethics highlights those differences in worldview that account for virtue’s place in the neo-Aristotelian account and its absence in the economic account. The principal reason for economics’ inability to address virtue is what Paul VI would have called the “privileged position” of preference optimization (rational choice) in its method.<sup>88</sup> The adoption of rational choice as a description of human-beings-as-they-happen-to-be excludes contingency from consideration, and thus excludes virtue as a response to contingency. The assumptions of rational choice models – that preferences are well-defined, that they represent consumer well-being, that contingency is adequately characterized as probability, and that agents are competent choosers – make unnecessary the distinction between human-beings-as-they-happen-to-be and human-beings-as-

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<sup>88</sup> Paul VI, *Octogesima Adveniens*, para. 38.



they-could-be-if-they-realized-their-essential-nature. Consequently, there is no need to seek the virtues, which are the transition from the former to the latter state.

Economics can address the virtues, as seen in the three examples examined above, but before economists and non-economists become too excited about the possibilities for dialog, it is important to note that *virtue* in economic analysis may differ from *virtue* in the Catholic virtues tradition. Non-cognitive skills, as defined in the human capital literature, bear a strong resemblance to virtue in the neo-Aristotelian tradition. The *virtues* of the behavioral literature on cognitive bias and internal conflict, while they address a gap between human-beings-as-they-are and –as-they-could-be, are more purely estimative and calculative than the neo-Aristotelian virtues, less valued for their own sake, and less embedded in character. The *social virtues* of the social preferences literature, while they restore a link from modern economics to its Humean and Smithian roots in moral sentiments, are more suited to an evolutionary account of society in which personal agency plays a much reduced role in the genesis and function of virtue.

The resemblance of *virtue* in these three accounts to *virtue* in the neo-Aristotelian tradition is inversely related to the prominence of rational choice in these three literatures. In the non-cognitive literature, little attention is paid to rational choice; non-cognitive skills affect productivity, education, and life outcomes, but not preferences. In the cognitive bias literature, the promising re-introduction of a gap between actual choice and ideal choice is vitiated by the adoption of rational choice as the ideal; as a result, the *virtues* become more calculative, and less personal. The social preferences literature incorporates virtue into choice through preferences, and as such becomes less personal – of value to a policymaker trying to elicit social behaviors, but less valuable to agents themselves.

This chapter adopts a broad focus, on virtue in general rather than practical wisdom. Elsewhere I have focused more narrowly on the absence of practical wisdom in economics.<sup>89</sup> Even though our concern is primarily practical wisdom, the wider lens is justified, because the blindness of economics to practical wisdom is part of a more wide-ranging blindness to virtue. Moreover, all of the moral virtues (justice, temperance, fortitude, liberality, etc.) are crucial to excellence in choice; practical wisdom cannot function without them, and is in turn crucial to their exercise. A person who does not have the virtues of self-control, generosity, and justice is unable to exercise practical wisdom.

#### **4 Principles for Dialog with an Indispensable but Inadequate Discipline**

How should CST enter into conversation with a discipline like economics, which is “at once indispensable and inadequate”<sup>90</sup> for CST’s purposes? I take it for granted that the answer to this question does not involve a wholesale rejection of economic method – we should not attempt to raze the edifice of economic analysis in order to build on a new, virtues foundation. Economics can and does creatively modify its method; the three literatures examined in this chapter are testimony to this openness. Nevertheless, economics is unlikely to jettison its methods, and its attempts to grapple with the concept of virtue will most likely fall short of the neo-Aristotelian concept. If CST waits for economics to adopt its concepts, it will have to wait a long time; in the meantime economics has much to offer. How to proceed?

It should be noted that the “the interdisciplinary dialog between CST and economics” does not exist in a pure form. Perhaps it is best visualized as a table with bishops on one side and economists on the other, but the dialog is often internal. A bishop may himself be trained in a

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<sup>89</sup> Yuengert, *Approximating Prudence*.

<sup>90</sup> Paul VI, *Octogesima Adveniens*, para. 40.

human science (psychology, sociology, even economics), or may have adopted the sociological analysis which informs much of his theological training, and so is himself trying to bridge the intellectual gap between his own understanding of CST and the social sciences. Economists who are Catholic (or who are attracted to CST's vision of the person and society) may themselves be attempting to bridge the divide and carry on the conversation. The well-trained economist may face a double challenge: to understand how CST should make use of the insights of economics even though economics is blind to the insights of CST, and at the same time to understand how economics should assimilate the broader horizon of CST while at the same time recognizing the inability of CST and its proponents to recognize fully the insights of economics. As noted in the last chapter, the exercise of integration is itself an exercise in practical wisdom.

In "The Space between Choice and Our Models of It" I compile guidance from three very different literatures on how to proceed.<sup>91</sup> The problem, as I see it, is how to employ the insights of economics while at the same time recognizing that economics leaves out virtue, which is itself crucial to human well-being, to the flourishing of society, and to the success of any public policy formulated by economists.

In the essay I examine the work of three social scientists who explore a more general question: how should a formal account of human behavior and institutions take into account human skills and knowledge which cannot be included in the formal account itself? Lucy Suchman (a sociologist) examines the inability of machine programs to capture the skills and communication necessary for "situated action," and how programmers have adjusted to this insight.<sup>92</sup> James Scott (an anthropologist and political scientist) documents and critiques the

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<sup>91</sup> Yuengert, "The Space Between Choice and Our Models of It."

<sup>92</sup> Lucy A. Suchman, *Human-Machine Reconfigurations: Plans and Situated Actions*, 2nd ed. (Cambridge University Press, 2007).

blindness of large-scale planning (government and non-government) to local knowledge, the consequent suppression of that knowledge, and the failure of the plans.<sup>93</sup> Finally, Vernon Smith (an economist building on the insights of Friedrich Hayek) analyzes the relationship between the constructivist rationality of economic analysis and the ecological rationality of economic behavior in markets.<sup>94</sup>

These three sources offer general guidance for economists in thinking about policies based on their insights and analysis. The rules apply equally to non-economists evaluating the insights and analysis of economics:

*1) The limitations of economics are not as big a problem when they are acknowledged.* There is a paradoxical tendency in any discipline to expand its limited vision into a comprehensive analysis of all social reality. This is true of economics and of all the social sciences. Although economists receive more criticism for their imperialist ambitions, other social sciences are no less aggressive. Paul VI's caution that any social scientist can be attracted to and then imprisoned by his analysis applies to economics and all of the social sciences whose simplifications "mutilate man."<sup>95</sup> Given these temptations to comprehensive vision, economists ought at all times to be aware of their blind spots.

*2) The more comprehensive the economic analysis, the more suspect.* Economic analysis can adopt a comprehensive reductionist vision, but proposed policies and institutions must take into

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<sup>93</sup> James C. Scott, *Seeing Like a State: How Certain Schemes to Improve the Human Condition Have Failed* (New Haven: Yale University Press, 1998).

<sup>94</sup> Vernon L. Smith, *Rationality in Economics: Constructivist and Ecological Forms* (Cambridge: Cambridge University Press, 2007).

<sup>95</sup> Paul VI, *Octogesima Adveniens*, paras. 36, 38.

account what is left out of economic models. Proposed policies must leave ample room for, and embody a respect for, the virtues. Programs of reform ought to take small, reversible steps.

Comprehensive plans based on incomplete accounts of human nature and social interaction are likely to go wrong in unanticipated ways, and may suppress the virtues on which their success depends, because they cannot incorporate the creative adjustments of virtue into their analysis.

*3) The more economic analysis relies on rational choice modelling, the less room it has for neo-Aristotelian virtue.* As we have seen, the rational choice model leaves little room for virtue as it is conceived in CST. Moreover, the rational choice model makes the comprehensive vision of economics appear feasible, by erasing the contingency that clouds the certainty of general abstract categories.

*4) Look for virtue.* If virtue is absent in the economic analysis, do not discard it, but ask where the virtues will be exercised, how they will be fostered or suppressed, and do not lose sight of the intrinsic value of virtue. If virtue is present in economic analysis, ask what sort of virtue it is, and whether it is the sort of virtue important in CST.

These rules are straightforward, but not easily applied. They are themselves the sort of maxims which guide practical wisdom but cannot themselves determine behavior in any particular circumstance. It is as important that they be adopted by practically wise economists who are engaged with bishops as it is that they be employed by practically wise bishops who are engaged with economists.