

What Should Be a Culture of Enterprise in an Age of Globalization?

Remarks prepared for delivery at an Intercollegiate Studies and Cato Institutes Conference at the Cato Institute, Washington, D.C., 29 March 2007

By John D. Mueller¹

The Intercollegiate Studies and Cato institutes deserve our thanks for this conference posing the question, “What Should Be a Culture of Enterprise in an Age of Globalization?” But I think we must start with a prior question: Isn’t “culture of enterprise” really an oxymoron?

“Culture,” as philosopher Joseph Pieper observed, “depends for its very existence on leisure, and leisure, in its turn, is not possible unless it has a durable and consequently living link with the *cultus*, with divine worship.” This link “is the primary source of man’s freedom” and explains why culture comprises “those gifts and qualities which, while belonging to man, lie beyond the immediate sphere of his needs and wants.”² Enterprise on the other hand seems to belong precisely to “the immediate sphere of [human] needs and wants.” A “culture of enterprise” would therefore seem to be one which idolizes business.

The apparent contradiction can be resolved once we recognize that broadly speaking, enterprise is nothing but the cardinal virtue of prudence. The French *entreprise* means “to undertake,” and down to the time of Adam Smith the English word for *entrepreneur* was “undertaker.” Despite its modern connotation of spineless pusillanimity, prudence is the ability to grasp any situation in all its complexity and respond by *undertaking the right action*. Personal prudence is essential in guiding our personal behavior; domestic prudence our family (or its modern offshoots, the business firm and charitable foundation); and political prudence the conduct of government. To these correspond personal, domestic and political economy, respectively. From this it is clear that, while enterprise in the narrow sense is *business economy*, it is included in the broad sense, but not vice versa. I suggest we must therefore define a *culture of enterprise* in the broad sense, as one that empowers its members (1) to express ordinate love of God, neighbor and self (2) in their personal, domestic (personal, business, charitable), and political capacities (3) while engaging global competition and needs.

To unpack what this means, we must recognize another important fact: The logical and mathematical structures of scholastic, classical and today’s neoclassical economics differ fundamentally. Most economists are unaware of this because, starting in 1972 at the University of Chicago, George J. Stigler succeeded in his national campaign, begun in 1954, to abolish the longstanding requirement that students of economics master its history before being granted a

¹ John D. Mueller is director of the Ethics and Public Policy Center’s Economics and Ethics Program and president of LBMC LLC, a financial-market forecasting firm, in Washington D.C.

² Josef Pieper, *Leisure the basis of culture, with an introduction by T.S. Eliot*, Pantheon Books, New York, 1st ed. 1952, rev. 1964, xix, xx.

degree.³ We therefore need some kind of Rosetta stone for mutual translation among economists in this Tower of Babel: *a brief, remedial history of economics*.

What is economics *about*? It describes from one angle what people do all day. Jesus (of all people) once noted that since the days of Noah and Lot and until the end of the world, humans have been doing and will be doing four kinds of things. He gave these examples: “planting and building,” “buying and selling,” “marrying and being given in marriage,” and “eating and drinking”⁴: in other words, we *produce, exchange, distribute* and *use* (or consume) our human and nonhuman goods. That’s the usual order in *action*. But in *planning*, first we choose *For Whom* we intend to provide, which we will express by the *distribution* of our goods; next *What* goods to provide as means for those persons; and finally *How* to provide these means, through *production* and (usually) *exchange*. So we might say that *economics is essentially a theory of providence*: it describes how we provide for ourselves and the other persons we love, using scarce means that have alternate uses.

Scholastic economics began in the mid-13th century when Thomas Aquinas first integrated these four elements, all drawn from Aristotle and Augustine, to describe personal, domestic and political economy. The scholastic economic system is comprehensive, logically complete, mathematical, and empirically verifiable.⁵ Joseph Schumpeter incorrectly wrote that Augustine

³ “In 1972, he [Stigler] successfully proposed that the history of thought requirement be dropped at Chicago. Most other economics departments later followed suit. . . . At the same meeting Stigler unsuccessfully proposed that the economic history requirement also be dropped.” Robert Leeson, “The Chicago Counter-Revolution and the Sociology of Economic Knowledge,” Working Paper 159, Economics Department, Murdoch University, Murdoch, WA, Australia, July 1997, endnote 62. In his earlier campaign for the change, Stigler ejected Aquinas’ view that a scientist is defined by whether he understands his subject rather than having a degree. Stigler claimed instead that every science is continuously defined by a self-governing group calling themselves scientists. From this sociological definition, he said, it was obvious that “one need not read in the history of economics—that is, past economics—to master present economics.” Instead, “the young theorist...will assume...that all that is valid in earlier work is present—in purer and more elegant form—in the modern theory,” and that “the history of the discipline is best left to those underendowed for fully professional work at the modern level.” As my text indicates, the young economist who assumed this would be underendowed for fully professional work because he wouldn’t know his subject. George J. Stigler, “Does Economics Have a Useful Past?” *History of Political Economy* 1 (Fall 1969), reprinted in George J. Stigler, *The Economist as Preacher and Other Essays*, University of Chicago, 1982, 107-118; 107.

⁴ Luke 18:27-28.

⁵ Augustine’s theory of personal distribution: *On Christian Doctrine* I,28 (see also *On Free Will*, cited below); Aristotle’s social distribution (distributive justice): *Ethics* V,3; Augustine’s theory of utility (consumption): *City of God* XI,16; Aristotle’s theory of production of people and property: *Politics* I,4; Aristotle’s justice in exchange (equilibrium): *Ethics* V,5. In Aquinas, three of these four elements (the distribution function, the utility function, and the equilibrium conditions) are described (and the production function implied) in Thomas Aquinas, *Commentary on Aristotle’s Nicomachean Ethics*, translated by C.I. Litzinger, O.P., Foreword by Ralph McInerny, Dumb Ox Books, Notre Dame, IN, 1993; personal distribution: Book V Lectures IV-IX, 293-318; social distribution: 294; the “equilibrium conditions”: 294-296 and 297-299, the “utility function” and analysis of money, 312-315. The production function is described in his commentary on Aristotle’s *Politics* I, 3: Thomas Aquinas, *Sententia libri politicorum*, Book I, Lecture 2N, accessed 20 December 2001 at http://www.tacalumni.org/aquinas/TOMA_055.txt. The same analysis is

“[n]ever went into economic problems” and that Aquinas’ economics was “strictly Aristotelian.”⁶ Aquinas not only combined Aristotle’s contributions with but also subordinated them to Augustine’s in both “positive” (descriptive) and “normative” (prescriptive) theory.

“*Positive*” *scholastic theory*. Aquinas had paraphrased Aristotle’s “final cause” by observing that “every agent acts for an end.” But this is true in quite different senses of not only humans but also an arrow aimed at a target and the family cat aiming for a meal. To distinguish these, Augustine had started from Aristotle’s definition of love—*willing some good to some person*—and drew an implication that Aristotle had not: every *person* always acts for the sake of some *person(s)*. For example, when I say, “I love vanilla ice cream,” I really mean that I *love myself* and *use*—consume—vanilla ice cream (rather than, say, strawberry ice cream or Brussels sprouts) to express that love. In other words, we act on two scales of preference, not one—for persons as ends and other things as means—guided by personal love and utility, respectively.

Since man is a social creature, “human society is knit together by transactions of giving and receiving,”⁷ Augustine noted. But these outwardly similar transactions are of two essentially different kinds: “sale or gift.”⁸ Generally speaking, we *give* our wealth without compensation to the people we particularly love, and *sell* it to people we don’t. Since it’s always possible to avoid depriving others of their own goods, this is the bare minimum of love expressed as *benevolence* or goodwill and the measure of what Aristotle called *justice in exchange*.⁹ But our self-love is expressed by the utility of the goods we provide ourselves,¹⁰ and our love of others with *beneficence*: gifts. (Hate is expressed by the opposite of a gift: *maleficence* or crime.) The social analog to personal gifts is what Aristotle called *distributive justice*¹¹: the formula we use in social communities like a family or nation to distribute common (jointly owned) goods. Both are a kind of “transfer payment”; both are determined by geometric proportion; and both are practically limited by the fact of scarcity.

also scattered throughout his *Summa theologiae*, especially in his commentary on the seventh commandment.

⁶ Joseph Schumpeter, *History of Economic Analysis*, edited from manuscript by Elizabeth Boody Schumpeter, Oxford University Press, New York, 1954, 72 and 93.

⁷ Augustinus Aurelius, “To Simplician—On Various Questions,” Bk. 1, q. 2 a. 16, in *Augustine: Earlier Writings*, selected and translated with introductions by John H.S. Burleigh, Westminster Press, Philadelphia, 1953, 398.

⁸ Augustine, “On Free Will,” in Burleigh, ed., 131.

⁹ *The Nicomachean Ethics of Aristotle*, translated and introduced by Sir David Ross, Oxford University Press, 1954, Book V. Ch. V.

¹⁰ The notion that altruism means gaining utility from the utility of others, posited by such economists as Gary Becker and Kenneth Arrow, is based on the error of *cardinal* utility: viewing utility as a *thing* (a hypothetical quantum of physiological pleasure) rather than an order of preference (which is a *relation* between a person and other things: so-called *ordinal* utility). The error is obvious when we recognize that we cannot directly sense anyone else’s pleasure, and that whenever two people loved each other more than themselves, the pleasure would be infinite (as Becker has conceded: Gary S. Becker, “A Theory of Social Interactions,” *Journal of Political Economy* 82, no. 6 (1974): 1063-1091, reprinted in Gary S. Becker, *The Economic Approach to Human Behavior*, University of Chicago Press, 1976, 253-281; 270n.)

¹¹ Aristotle’s *Ethics* V,3; op. cit., 112-114.

*“Normative” scholastic theory.*¹² We naturally love ourselves, Augustine pointed out. All other moral rules are derived from the Two Great Commandments¹³ because these measure the degree to which our love is “ordinate”: rightly ordered.¹⁴ If a good were sufficiently abundant we could and should share it equally with everyone else. But with such goods as time and money, which are “diminished by being shared”¹⁵ (i.e., scarce), this is impossible. Therefore “loving your neighbor as yourself” can’t always mean *equally with yourself*: “Since you cannot do good to all,” Augustine concluded, “you are to pay special regard to those who, by the accidents of time, place, or circumstances, are brought into closer connection with you.”¹⁶ Aquinas applied but extended Aristotle’s corresponding analysis to all communities: Common goods are necessary to the existence of both families and governments. But the fact of scarcity requires that most common goods be owned by families, not governments, because of the two advantages noted by Aristotle (greater social peace and productivity) and the third added by Aquinas (greater order).¹⁷ Distributive justice and/or justice in exchange are violated by what James Madison later described as faction. Each faction has an ideology, which Hannah Arendt succinctly defined as a world-view that requires its adherents to create a “fictitious world,” distorting reality to the advantage of its members.¹⁸ For example, collectivist ideology collapses justice to distributive justice, as if *all goods were both common and political*; while libertarian ideology collapses justice to justice in exchange, as if *all goods were both private and never given*.

Scholastic economics (c.1250-1776) was taught at the highest university level for more than five centuries by Catholics and (after the Reformation) Protestants alike. For example, Alexander Hamilton, who penned two-thirds of the *Federalist*, adopted it from such Protestant scholastics as Lutheran Samuel Pufendorf, who was widely read in the colonies.

¹² Historically, normative has preceded and stimulated the development of positive economic theory. “They wrote for many purposes but principally for the instruction of confessors” (Schumpeter, *History*, 102). A council of 1215 had greatly stimulated the demand for economic analysis by establishing the (still current) Church law that everyone confess his sins to a parish priest at least once a year. To give proper advice, the priests had to understand what was being confessed.

¹³ “You shall love...God with all your heart...” (Deut. 6:5) and “love your neighbor as yourself” (Lev. 19:18).

¹⁴ For example, the first three commandments of the Decalogue specify in greater detail how we should love God and the otherst how we should love of our neighbor; the rest of the natural law proceeds in turn from the Decalogue: all as a matter of reason, not just faith.

¹⁵ Augustine, “On Christian Doctrine,” I, 1.

¹⁶ Augustine, “On Christian Doctrine,” I, 28.

¹⁷ “If the responsibility for looking after property is distributed over many individuals, this will not lead to mutual recriminations; on the contrary, with every man busy with his own, there will be increased production all round,” Aristotle’s *Politics* II, 5, Sinclair, ed., 63. Aquinas listed these two and added a third, greater order resulting from the efficient use of specialized knowledge: peace (“a more peaceful state is ensured to man if each one is contented with his own”); productivity (“every man is more careful to procure what is for himself alone than that which is common to many or all”); order (“human affairs are conducted in more orderly fashion if each man is charged with taking care of some particular thing himself, whereas there would be confusion if everyone had to look after any one thing indeterminately”), *Summa theologiae* II-II Q66 A2

¹⁸ Hannah Arendt, *The Origins of Totalitarianism*, Allen & Unwin, London, 1967, 438.

Classical economics (1776-1871) began when Adam Smith tried to chop the four scholastic elements to two: dropping Augustine's theory of utility (which describes consumption) and replacing Augustine's theory of personal distribution and Aristotle's theory of social distribution with the mere assumption that everyone is motivated by self-love. This is how classical economics began with only two elements, production and exchange.

Today's *neoclassical economics* (1871-c.2000) began when three economists¹⁹ dissatisfied with the failure of classical predictions independently but almost simultaneously reinvented the theory of utility, starting its reintegration with the theories of production and exchange. In his prize-winning book, Tom Woods describes the scholastics as "proto-Austrians."²⁰ Joseph Schumpeter considered them "proto-Walrasians." I used to share such "Whig histories of economics," but had to abandon them about 10 years ago because they fail to wrap up all the "leftovers." As Alex Chafuen has noted, personal gifts and distributive justice were both central to scholastic economic theory, early and late.²¹ Yet they are not taught (except by claiming them to be disguised exchanges) in any neoclassical school, including the Austrians.

In a forthcoming book,²² I predict that in coming decades *Neoscholastic or "AAA" economics*²³ (c.2000- ?) will revolutionize economics once again by replacing its lost cornerstone—the theory of personal and social distribution.

I think I can explain both why and how this is already beginning. First, *why*: Like neoclassical relative to classical theory, the neoscholastic approach can answer questions that no existing neoclassical theory can: for example, making superior empirical predictions about crime, fertility, and unemployment. I don't have time for detailed explanations in these introductory remarks, but I've done so elsewhere and am prepared to do so today at the drop of a question.²⁴

Second, *how* is illustrated by two of the most interesting events in which I've participated in the past year: helping judge the first undergraduate essay contest for ISI's Culture of Enterprise Initiative (which posed a question closely related to ours: "Can character and community survive in an age of globalization?"); and the Lehrman Summer Institute at Princeton, co-sponsored by ISI and Princeton's James Madison Program. Both are fascinating because they give a bird's-eye view of what students are (and are not) learning, and what professors are trying to teach, in various departments at a broad range of American (and some foreign) universities. What I found most striking in the

¹⁹ W.S. Jevons in England, Carl Menger in Austria, and Leon Walras in Switzerland.

²⁰ Thomas E. Woods Jr., *The Church and the Market: A Catholic Defense of the Free Economy*, Lexington Books, 2005, 7, 43-46, 216.

²¹ Alejandro A. Chafuen, *Faith and Liberty: The Economic Thought of the Late Scholastics*, Lexington Books, Lanham MD, 2003, 92-93 and 101-103.

²² John D. Mueller, *Redeeming Economics: Free Markets and the Human Person* (ISI Books).

²³ Named for the originators and integrator of its four elements: Aristotle, Augustine and Aquinas.

²⁴ John D. Mueller, "Dismal Science," review of *Freakonomics* by Steven Levitt and Stephen Dubner, *Claremont Review of Books* Vol VI No 2, Spring 2006, available at http://www.eppc.org/publications/pubID.2608/pub_detail.asp; John D. Mueller, "How Does Fiscal Policy Affect the American Worker?" *Notre Dame Journal of Law Ethics and Public Policy*, Vol. 20, no. 2, 563-619, Spring 2006, available at

http://www.eppc.org/publications/pubID.2671/pub_detail.asp.

student essays was the sharp divergence between the essayists majoring in economics and those majoring in other disciplines. The economics majors competently covered the three neoclassical elements I have mentioned—production, exchange and consumption—then stopped, never hinting that economic theory ever had or could describe anything else, like love. Yet a majority of humanities and interdisciplinary majors clearly stated all four basic elements and correctly integrated them at most (in one case all three) levels: personal, domestic and political economy. Apparently, a surprisingly complete outline of economic theory is still being taught in American universities—just not in the economics departments! But through the Lehrman Summer Institute I'm watching the teaching start to change: a rising young professor of economics and a rising young professor of philosophy or history at the same university, both dissatisfied, are conferring for the first time about revisions to their respective curricula, to bring them back into agreement with each other (and with reality).

To conclude, I find a surprising amount of hope, not just for a culture of enterprise, but also for a little enterprise in our academic culture.

Appendix:
Thomas Aquinas and Alexander Hamilton vs. Adam Smith on Globalization

Free trade in most (though not all) products has been in America's interest for the last century, and in my judgment will be for the foreseeable future. But it was not for America's first century, and we cannot understand either American history or today's debate over globalization without recognizing that Hamilton foresaw this change and disagreed with Smith precisely over the order of national priorities discussed by Aquinas five centuries earlier.

Aquinas presented a clear-eyed view of the tradeoffs involved in pursuing a secure, virtuous and prosperous life in the face of "globalization"—which, far from being a new economic problem, is one of the oldest. The central issue, as Aquinas pointed out, is not the mechanics of trade but what people consider their highest good. "If that ultimate end were an abundance of wealth," he said, "the knowledge of economics would have the last word in the community's government."²⁵ Rather, "Men form a group for the purpose of living well together, a thing which the individual man living alone could not attain, and good life is virtuous life."²⁶ On this view, wealth is only third in importance after peaceful unity and virtue, Aquinas said.^{27,28} After public safety and health, the most essential instrumental goods are food and energy.²⁹ Self-sufficiency is militarily safest, since "the city may be overcome through lack of food [and energy]." But if a city or nation cannot provide these for itself it must trade for them abroad. Trade ordinarily brings greater wealth by lowering prices paid for imported goods and expanding export markets for domestic products. But it also undermines civic unity by introducing foreign customs and entanglements, promoting vices like greed, and bestowing honor on the rich—as the result of which "civic life will necessarily be corrupted." Having noted these difficulties, Aquinas firmly rejected autarky as impractical in any country with which he was familiar.³⁰ In short, there are legitimate reasons for restricting foreign trade, but they typically exact an

²⁵ *On kingship, to the King of Cyprus*, trans. by Gerard B. Phelan, rev. with introduction and notes by I. Th. Eschmann, Pontifical Institute of Medieval Studies, Toronto, c.1982, c. 1949; II, 3; 59.

²⁶ Yet "it is not [merely] the ultimate end of an assembled multitude to live virtuously, but [also] through virtuous living to attain to the possession of God." *Ibid.*

²⁷ "Therefore, to establish virtuous living in a multitude three things are necessary. First of all, that the multitude be established in the unity of peace. Second, that the multitude thus united in the bond of peace, be directed to acting well. For just as a man can do nothing well unless unity within his member be presupposed, so a multitude of men of men lacking the unity of peace will be hindered from virtuous action but the fact that it is fighting against itself. In the third place, it is necessary that there be at hand a sufficient supply of the things required for proper living, procured by the ruler's efforts." *Ibid.*, II, 3; 65.

²⁸ *On Kingship*, II,3; *ibid.*, 60.

²⁹ In Aquinas' time, before steam and internal combustion engines, animal feed and other vegetation provided most heat and motive power.

³⁰ "Still, trade must not be entirely kept out of a city, since one cannot easily find any place so overflowing with the necessaries of life as not to need some commodities from other parts. Also, when there is an overabundance of some commodities in one place, these goods would serve no purpose if they could not be carried elsewhere by professional traders. Consequently, the perfect city will make a moderate use of merchants." *Ibid.*, 75.

economic cost. This balanced discussion fairly captures the pros and cons of “globalization.” Aquinas and the scholastics generally favored freedom of domestic commerce, however, except in emergencies.³¹

Adam Smith had argued without much systematic discussion that the goal of political economy is “to enrich both the people and the sovereign.”³² But he was not consistent in applying this criterion. In the case of Britain his foremost exception to free trade was “when some particular sort of industry is necessary for the defence of the country.”³³ But his advice to America in the same work (first published while the two countries were at war) was that America should place wealth above national defense. Because of its abundant land and resources, he said, America must necessarily specialize in agricultural products to be traded freely for British manufactured goods. “Were the Americans...to stop the importation of European manufactures,” Smith predicted, “they would...obstruct instead of promote the progress of the country toward real wealth and greatness.”³⁴

In his 1791 *Report on Manufactures*, Hamilton countered, “Not only the wealth, but the independence and security of a Country, appear to be materially connected with the prosperity of manufactures.” This tradeoff meant that appropriate economic policy must take account of both a country’s national security and stage of economic development. Defense apart, free trade was ordinarily advantageous if a country had either no or a highly developed manufacturing capacity. But “[b]etween the recent establishments of one country and the long matured establishments of another country, a competition on equal terms...is in most cases impracticable...without the extraordinary aid and protection of government.”

In his Farewell Address, drafted by Hamilton, George Washington reprised Hamilton’s argument for “infant industry” protection from the *Report on Manufactures* and its two chief purposes: national unity and defense. Through “unrestrained” internal commerce, “protected” by the “equal laws of a common government” and with “progressive improvements of interior communications, by land and water,” the American Union would bind its sections in “an indissoluble community of interest as *one Nation*,” with the North and East (rather than

³¹ “Now the relations of one man with another are twofold: some are effected under the guidance of those in authority; others are effected by the will of private individuals,” wrote Aquinas. “And since whatever is subject to the power of an individual can be disposed of according to his will, hence it is that the decision of matters between one man and another, and the punishment of evildoers, depend on the direction of those in authority, to whom men are subject. On the other hand, the power of private persons is exercised over the things they possess: and consequently their dealings with one another, as regards such things, depend on their own will, for instance in buying, selling, giving, and so forth.” *Summa theologiae* II-II Q105 A2.

³² Adam Smith, *Wealth of Nations*, Book IV, Introduction.

³³ *Wealth of Nations* IV, II. (1976 [1776]), Vol. 2, p. 44. Discussing Britain’s Navigation Acts, which protected British commercial shipping and sailors, Smith concludes, “By diminishing the number of sellers, therefore, we necessarily diminish the number of buyers, and are thus likely not only to buy foreign goods dearer, but to sell our own cheaper, than if there were perfect freedom of trade. As defence, however, is of much more importance than opulence, the act of navigation is, perhaps, the wisest of all the commercial regulations of England.” *Ibid.*, 46.

³⁴ *Wealth of Nations*, II,5.

Britain) supplying manufactures and maritime security in exchange for food and materials from the West and South.

After a century of development under Hamiltonian policies, the advantage of free trade returned when the United States overtook Britain as the world's foremost manufacturing power around the First World War—about when the German-American economist Friedrich List, a close student of Hamilton, had predicted in the 1880s.