What are our degrees of freedom for living solidarity?

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THE MARKET MADE ME DO IT
The danger in speaking after 13 talks on Catholic thought and business is that there is nothing left to say. Russ Hittinger started with the observation that his job was to tell you what you already know. I fear my job is to tell you what you have already heard. But I think I can come at it from a slightly different angle.

The title of this talk is “What are our degrees of freedom for living solidarity?” In other words, is this a pipe dream? Is it possible to live up to the demands that the Catholic Church puts on businessmen, to build a business which serves the common good? I hope you have been encouraged that this is possible, however difficult. In this talk I want to focus on something that may lead us to think that this challenge is utterly unrealistic: we talk about markets, finance, competition, and management in ways that lead us to think that we have no scope for moral behavior in markets. I call this excuse “The Market Made Me Do It.” This way of talking about the challenges of business shapes our sense of our responsibilities in markets, and limits where we can effectively exercise the virtue of solidarity.

We know that as Christians, we have an obligation to work toward a more just society of good work. Solidarity makes this claim on all of us. But where is this solidarity exercised? What is the outlet for this virtue? When we see the world through the lens of subsidiarity, we see ourselves as part of many communities, all connected, each with a common good. The common good of some communities like the state is supposed to include the common goods of the communities which are embedded in it. A businessperson has obligations of justice and prerogatives of love in each of the communities in which he lives: in the family, in the local business office, in the corporation, in the local church and other communities, and at the level of the state. Since communities higher up (like the state) are supposed to address tasks and challenges which are beyond the communities further down, the question arises: where should we act on the demands of solidarity? Does it make sense to try to live solidarity in the workplace? Or does solidarity mean state action?

The crucial question for us is “can anything be accomplished for justice and solidarity at the local level, the business, the office, etc.?“ If the answer is no, then we are going to find it impossible to bridge the divide between our lives as Catholics and our lives in business.

Let’s say you own a business, or are responsible for one. You are sometimes, maybe often (probably always) faced with difficult decisions.

For example, maybe the decision is difficult because it affects your workers. Their pay is low, and you decide you can’t give them a raise this year. Or you must lay off some of them, even though many are vulnerable to job disruption.

Or maybe your decision is difficult because it involves long-term suppliers, who are your friends, or with whom you at least have built a sense of trust and loyalty. You must find lower-cost or higher quality suppliers; perhaps your current suppliers will suffer as a result.
Or, finally, maybe the decision involves costs to your family. Your already long hours don't seem long enough to get the job done, or you are anticipating more travel time. Your spouse, your children, and others who depend on you outside of the workplace will see less of you.

Let's focus on decisions which affect workers, because they are most often in the news, and in our consciousness. You have workers, some whom you know, and perhaps all whom you care about. Your business is under pressure, and you cannot pay them as well as you would like to. Or you must lay off some, and it eats you up, keeping you up at night.

Why exactly do you feel bad about this decision (this is a question only an academic would ask)? There are many answers to this question, and they fall along a spectrum: On one end of the spectrum, you feel bad even though there is nothing, really, you can do about it. On the other extreme, you feel bad because you could do something about it but do not.

The first extreme is: you really have no choice. If you pay your workers more than minimum wage, or employ them full time with benefits, your business will fail. You feel bad for your workers, but you also feel helpless to do anything about it. Your employees losing their jobs, or having crummy pay, is something that happens to them without you really doing it to them. You would feel bad for them if they worked for someone else and lost their jobs. You can comfort yourself with the realization that you are not really responsible; it's not your fault. You are like a bystander: sympathetic, wondering if there was something you could do, but not really responsible.

On the other end of the spectrum is a situation in which you could without cost pay your workers more or keep them employed. Of course, I'm an economist, and know that there are always costs! When you pay your workers more than minimum wage, or give them more generous benefits, profits will be lower, but let's say the lower profits do not threaten the business; you are not on the knife edge of failure or survival. In this case, you feel bad because you are in fact doing something morally wrong; you could easily help your workers, avoid laying them off, or increase their compensation, but you don't, because you don't have to. Your conscience is bothering you, and it should. Your feelings are a sign that you should treat your workers better.

So which is it? Are you helpless (in which case you have no moral responsibility) or fully in control (in which case you need to change your behavior)? Of course, the truth is somewhere in the middle. How close we are to either extreme is very important, however, because it forces us to confront both the culpability of the business owner, and our moral responsibility.

Of course, it is very difficult to discern in any given situation where on the spectrum we are. I think there are three reasons for this difficulty in discernment:

■ First, we never have the luxury of certainty. We never know exactly what will happen if we pay our workers more; we only know risks and probabilities, and we don't even know those well. It's hard to know, and our judgments might be wrong.

■ Second, we are imperfect and sinful. We make mistakes, and sometimes let ourselves off the hook. These decisions involve our own judgments about how much we need to live on, what sort of risks are acceptable to our standards of living and our status, and we are as vulnerable as anyone else to wanting too much. We mistrust ourselves, and our mistrust is, we know, often justified.

■ Third, everyone around us is telling us that we have no choice but to pay as little as possible for as much work as we can get. This is my biggest concern. I worry that those of us who look at these decisions from a distance (from academia, from government), make it too easy to say that there is no choice in matters like this, that "The Market Made Me Do It" is always true.

Both the right and the left sides of the political spectrum encourage the attitude of "The Market Made me Do It," that there is no choice but to drive costs down as far as possible, no matter the consequences, and that those who treat their workers better will not survive in a dog-eat-dog market.

On the left, the story goes like this: Those who have power (business owners, owners of capital) are as trapped as workers are by competition; the system of competitive
capitalism is to blame. I participated in an excellent seminar recently in which most of the seminar members were on the left. One of them used Mitt Romney’s work as an example of this blamelessness. There was no question among the participants that Bain capital’s mission was to cut wages and jobs at U.S. companies, to make them more profitable at the expense of U.S. workers. The question was whether we could really blame him for his actions. Those who were more generous did not blame him, because to blame him would be to claim that the problem of capitalism was that capitalists were greedy. According to this story, however, replacing greedy Romney with a virtuous CEO would not help matters, because it wasn’t Romney who laid waste to U.S. workforces, it was the system and its incentives.

It is not just the left that tells us that business owners have no choices with regards to how they treat their workers. The story on the right is actually kind of similar: employers who produce in very competitive markets must pay market wages, which are determined by supply and demand in competitive labor markets. They must also generate rates of return on investment and other inputs, which are also determined by supply and demand forces. After you pay market rates of return to labor, capital, and other investments, there is precious little left over. If you increase worker pay, you must decrease something else, and there is not a pot of money lying around. The money to pay your workers more must come from some other resource, and the owners of the other resources will take those resources somewhere else if you pay them less.

Both of these extremes, left and right, foster a similar attitude toward the moral responsibility of business owners: it’s not their fault, and remedies for market faults must lie elsewhere. In other words, solidarity is properly exercised outside of markets, not within them. What this means for business owners is different on the left and on the right. On the left, the moral business owner is obligated, along with everyone else, to work for a different system which gives the worker more power and a greater institutional share of the economic pie, either directly in the workplace via minimum wages, mandated benefits, employment protections, and union power, or via redistribution through a generous welfare state. On the right, owners are equally helpless, but there is less to worry about, since the system—the invisible hand—delivers benefits broadly in ways which cannot be improved upon by intentionally planned alternatives. If there are any problems with the system, though, they should be taken care of at a systemic level—through a safety net, through charity, or greater competition.
Where does Catholic social thought come down on this question? Not surprisingly, Catholic thought often emphasizes solutions taken at the level of the economic and political system: government-provided safety nets, support for unions, regulation of the labor market. The idea of social justice takes for granted a need to act at a systemwide level to address social problems.

You may be surprised, though, to find that Catholic social thought places expectations on the business owner, as well as the government official, for social justice. If actual markets leave as little room for businesses to act toward any goal but the maximization of profit by any legal means, then what shall we make of John Paul II’s exhortations in *Centesimus Annus*?

“Profit is a regulator of the life of a business, but it is not the only one; other human and moral factors must also be considered which, in the long term, are at least equally important for the life of a business” (para. 35).

If the maximization of profit is only one of the goals of a business, which exists as a “community of persons,” there must be some room for the pursuit of goals other than profits in markets.

In *Centesimus Annus*, John Paul II, after affirming the need for government to oversee the “the exercise of human rights in the economic sector” goes on to say that

“primary responsibility in this area [the area of human rights] belongs not to the State but to individuals and to the various groups and associations which make up society” (para. 48).

It makes no sense to place primary responsibility on individuals and groups if they have no practical scope, if they cannot act other than market pressures dictate.

John Paul II was not alone in expecting more from business owners. In *Caritas in Veritate*, Benedict XVI criticized ways of thinking in which the business sector was morally neutral, in which for-profit businesses focused on efficiency, the government sector ensured distributive justice, and the nonprofit sector charity. Instead, Benedict encouraged us to create space for the operation of justice and charity in the for-profit sector. Again, it makes no sense to expect charity to operate in the private sector if business owners have no practical space in which to allow love and care for workers to operate.

According to *Lumen Gentium*, from Vatican II, lay Catholics are supposed to be leaven in the world.

“They are called there to the secular order] by God that by exercising their proper function and led by the spirit of the Gospel they may work for the sanctification of the world from within as a leaven.”

Think about what this means. Leaven does not work to raise the bread according to some master plan, executed from the national Department of Leaven. The leaven is not a voting bloc; it is instead a sort of local catalyst. Each bit of leaven works where it is, and the dough rises.

Catholic social teaching, while assigning a crucial role to government in the promotion of rights, demands that businesses play their appropriate subsidiary role. Is it possible for them to do so, and remain viable in competitive markets? Or is Catholic social teaching demanding something impossible?

I worry that economic theory contributes to “The Market Made Me Do It” attitude, by making it seem that there is no room for moral agency in business, by the way it presents the concept of competitive markets. In the economic ac-
of return, and he will risk being driven out of business or bought out by a less scrupulous employer who will act to maximize profits. What’s a moral person to do? “The Market Made Me Do It.”

If the Market makes us do it, then we can’t expect much to be accomplished when we try to make businesses more human. The only way to exercise solidarity is to try to make systemic changes, to change the rules under which we must operate. It is impossible if all markets fit the perfectly competitive model of economic theory.

Most real markets, however (even competitive markets), are full of niches: geographic, brand, service niches. Long-term relationships with customers and suppliers, barriers to entry, and the unique skills and talents of workers and employers create ‘economic rents’—that is, profits that are not easily competed away. They can provide a space—sometimes only a little space—to give fuller rein to an employer’s desire to more fully include the interests of employees and other stakeholders in his business decisions.

Mainstream economics can easily miss the room for moral agency in economics, because it often ignores the reality of imperfect competition, and lacks an analytical language to describe the challenges and contributions of entrepreneurs.

There is a larger point here. The analytical models that we use to understand the economy, and to run a business, are not enough to fully understand the economy, and are not enough to act in it. For example, the competitive model of supply and demand doesn’t tell us how buyers and sellers find each other, figure out what prices to pay, or set up and staff production operations. These things happen without being described in an economic model. Economists don’t know how new products come about. A couple of nights ago Matthew Brach told me about newly minted finance college grads who cling to their spreadsheet models of valuation, reluctant to make the rule of thumb adjustments and to add in things that don’t fit the model—is the company losing long-term clients, for example. Although the spreadsheets and valuation formulas are necessary to sound valuation, they are not sufficient. Valuation must always make use of the framework, but must always go beyond it.

What I’m trying to say is: there will always be a big gap between economic descriptions of the economy, and of how people act in the economy, and what it is like to make a real decision. And what fills the gaps in the theory—what Catholic social thought calls practical wisdom, practical judgment—is crucial to the operation of the economy, even though we cannot describe it precisely.

What fills the gaps? People making decisions, entrepreneurs developing new products, making things happen that we economists can’t predict or explain fully. An entrepreneur specializes in making things happen in the messy, uncertain environments in which businesses operate. There is little room for the entrepreneur in economics, since the messy, uncertain details of business have been assumed away—we assume that everyone knows what the demand curves and cost curves look like, and new products, technologies, and business organizations come into being magically, without any entrepreneurial enterprise.

Many of our students already are entrepreneurs, or soon will be; they are often attracted to the challenge of making something new happen in environments where no one expected it could be done, of finding a way. The challenges facing the entrepreneur are similar to the challenges facing the moral business owner: how to create value where none was before, how to create an organization that generates benefits not just for the entrepreneur but for customers. The challenge of creating a business that has aspects of a good community of capital owners, customers, and workers is the same sort of challenge. There are remarkable people out there trying to make these sorts of businesses work, and succeeding. Sometimes it will not be possible, but sometimes it will—it is a challenge worthy of, and big enough for, a morally serious entrepreneur.

The work of the morally serious entrepreneur will not be visible in economic models, because entrepreneurial activity is invisible to economic models. So there is space for this work.

There will of course be times when market pressures will force a business to make difficult choices with real human costs: to let people go who need the work, for example. In preparation for this talk I wanted to read case studies of firms which are trying to do things differently—to make products which are good for people and to provide for good work: to pay more, to avoid layoffs, for example. Mike Naughton and David Specht have done us all a real service with this collection of case studies, Leading Wisely in Difficult Times.

We need more books like this, stories about how it is possible to live your faith in business without minimizing the difficulties. And what I love about this book is that the “Difficult Times” are distressingly real: all of these companies
face severe competitive pressures, demands for cost cuts from customers, and being true to stated values is difficult and discouraging work.

What practical advice can be gleaned from this book, and from the talks we’ve heard at this conference? I have three pieces of advice.

First, watch your language. How we speak affects how we think, and how we think can constrain us and close us off to the possibilities. The challenge to work in business and to lead differently is a social challenge. Sean Fieler in his talk on finance noted that the way we talk about business and finance matters—are investments “plays,” are managers “jockeys,” are people “seats,” are customers just competitors in the game? Bob Kennedy resists saying that people work for him, instead reminding himself that he is working with them, and that his job is to help arrange things so that they can contribute to the common project. Mission statements don’t matter if they are ignored, of course, but they can be an important source of concepts and language, to help a company to frame its challenges, to hold it accountable to its principles, particularly when times are tough.

A second piece of advice is to embody your principles in a set of practices. Don’t leave them in the mission statement. Families that want to maintain their unity adopt practices like “eat dinner together,” “say the rosary together,” “have a game night at least every other week.” In the same way, a company that is serious about its values must make them real in practices. Practices help to develop habits. One of my favorite stories from this book is that of a new manager who was told of an unusual practice at his new firm: when someone was fired, the manager who fired him would contact the fired employee and meet with him in person at least two times in the following year. When he had to do this, very soon after being hired, it was excruciatingly difficult—the first time. After his experience of reaching out to fired employees as a human being, this manager says he will continue this practice even if he moves to another company. It affects the way he fires workers, but it also affects the way he hires and manages his workers. Embody your principles in practices.

The third piece of advice is that this challenge is social. Find a community of business executives who are struggling to do things differently, and meet with them, be accountable to them. Support and challenge one another. Find out who is doing what you are trying to do, and take them to lunch. Encourage young mentees to seek out work with companies which are trying to be good, and to work under those bosses who embody these values and bear the scars of these struggles.

One final point: Sometimes change must come at the level of government, at a high level. But if you think of society purely from the perspective of a government regulator, or if you see the economy purely from the perspective of an abstract model, you will also miss how changes can emerge from the initiatives and struggles of those at local levels. No one in the homeschooling movement was trying to change the education system, but they have made a difference. The government did not bring about workplace innovations of flex time, the franchises of McDonalds and Chik-Fil-A did. Important institutional changes emerge from the social order; they do not always have to be imposed from above. They are the results of entrepreneurial adjustment to changing circumstances, changing views of what is and is not important.

We should not minimize the reality of competitive pressures, and the difficult choices facing the business owner. Neither ought we to maximize the reality of competitive markets, either: many markets are less than perfectly competitive, and firm owners are not helpless in the face of competitive pressure. Sometimes “The Market Made Me Do It” will be a copout.

We need to encourage our students not to be overly intimidated by the market. Those who are entrepreneurial should be encouraged to add one more thing to their desire to start a business and make it a success; to make it a good, caring place for everyone involved. The business world is a great place to let their desires to create run free, to the benefit of them, their workers, and their communities.
To read other presentations from the conference, please visit http://business.cua.edu/libertyandsolidarity/.
“With academics, policy makers, ethicists, theologians, and business leaders as presenters, the conference delivered the ideal blend of business theory, social responsibility, theological inspiration, and best practices.”
— ROBERT J. SPITZER, S.J., PH.D, President, Magis Center and Napa Institute

“It was a great joy for me to share ideas with colleagues already given to our Christian anthropology and to do so in the spirit-centering (and mind-expanding) context of daily prayer and sacrament. I’ve never been party to such fruitful exchanges.”
— LLOYD SANDELANDS, Professor of Management and Organization, Stephen M. Ross School of Business Administration, University of Michigan

“The conference was profound because of so many fundamental shifts in perspective. Amazing quality of speakers.”
— LOUIS KIM, Vice President, Hewlett-Packard

“This is a very important topic of integration of business leadership and faith. It’s always a great joy for me to be around people who are excited about incorporating their love of God into a passionate business world.”
— ANDY LAVALLEE, Founder & CEO, LaVallee’s Bakery