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Poverty, Dignity, Economic Development, and the Catholic Church

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This article analyzes Catholic social teaching on poverty and economic development, with a special emphasis on Costa Rica.

Private Property and Free Markets

Introduction

Human dignity has always been of grave concern to those interested in the plight of all peoples especially the Catholic Church. Indeed, many of its social teachings revolve around ways in which to ensure the dignity of all human beings, with special concern for the poor. This focus is commonly known as the preferential option for the poor. For most, the belief that it is our duty as human beings to help those in need is not disputed. However, the methods to accomplish this daunting task vary widely and are hotly debated. Some believe that it is the government's role to intervene and that this is the only way to ensure that people maintain their dignity. This view is especially favored when considering the development of poor nations. Here, the Catholic Church is certainly no exception.

Dignity

Pope Paul VI's encyclical *Populorum Progressio* (*On the Development of Peoples*), speaks of the need for "planned programs" and competition that is "kept within limits so that it operates justly and fairly" (Pope Paul VI 1967, 16).[1]

This document calls for the rich nations of the world to unselfishly support their poor counterparts. Although this encyclical was first published in 1967, when government intervention was held to be the only way for poor nations to develop, the underlying philosophy of this view is still supported by many today. Pope John Paul II acknowledges capitalism to be the most efficient economic system in *Centesimus Annus*, however, it is constantly tempered with admonishments to keep the poor in mind and not let them become "marginalized" (Pope John Paul II 1991, 14). Thus, the question remains how best to help the poor maintain their dignity, or, perhaps first, what is it that constitutes human dignity?

Some argue that a specified standard of living is the key to humanization: If a person does not have to beg for food or sleep in filth he is more human. The problem, however, is not figuring out how best to humanize people. It is, rather, deciding how not to dehumanize them. It is not possessions or poverty or riches that give us the quality of being human, it is, instead, free will. God gave us free will as the difference between man and animal. We are free to choose good or bad, right or wrong. When government tells us who to give money to or what we should spend our money on, we are not acting of our own free will; therefore, we are neither good nor bad. Like the animals, we have no choice.

Moreover, it is our claim that the natural situation for humankind is not poverty but wealth. The only reason we are all too often afflicted by the former is that the state intervenes into what would otherwise be a wealth-creating free-enterprise economy. If the regulators, bureaucrats, and politicians would leave off "humanizing us" into poverty, the marketplace would ensure we could overcome such debilities.

Thus, the best way to help the poor of underdeveloped countries[2] is not to violate the rights of the rich or to allow the poor to merely wait for financial aid with no thought of being self-sufficient. The way to attain human dignity is to promote freedom in all economic and political realms. It is only by doing this that we provide for the betterment of the poor in underdeveloped countries and allow both rich and poor to maintain their human dignity.

There are three topics that are generally spoken of when dealing with the development of nations and the preferential option for the poor: fair trade, workers rights, and foreign aid. On each of these topics, the Catholic Church advocates policies that are intended to help the poor but actually result in harming them. Our aim is to shed economic light on these issues that are more often evaluated in terms of emotions.[3]

Fair Trade

The idea of fair trade is something that most would support. However, as is often the case, the definition differs with opposing ideologies. The libertarian definition of fair trade is what happens when consenting adults mutually agree upon the terms and, therefore, both benefit, at least in the *ex ante* sense and typically in the *ex post* sense as well. On an international level, this translates into full free trade; an absence of all legal trade barriers. The implication here is that the United States, and, indeed, every other country in the world, would declare, unilaterally, full free trade with the citizens of every other nation.

In contrast, those who embrace a more socialist ideology would define fair trade in terms of protectionism; tariffs, quotas, subsidies, and other forms of government intervention that restrict free trade and limit the actions of consenting adults. Part and parcel of this ideology is the alphabet soup named international managed trade: NAFTA, CAFTA, WTO, GATT, and so forth. These all constitute limitations on, and interferences with, the ability of anyone, anywhere, to buy, sell, rent, lease, or invest with any other consenting party.

Catholic social teaching on this subject is somewhat vague. It is inarguable that in former years the Catholic Church has supported the latter definition of fair trade. As Pope Paul VI states: “the principle of free trade, by itself, is no longer adequate for regulating international agreements” (1967, 15). The pope goes on to say that free trade does not work when the countries are “far from equal” (1967, 15). This concept stems from the belief that an economy based on agriculture cannot fairly compete against one that is heavily industrialized. Nor can a rich one properly engage in free trade with a poor one, nor a big one with a small one. If this occurs, it will be to the detriment of the latter.

This argument greatly resembles that of Ragnar Nurkse who believed that demand for the products produced in the third world would be insufficient to support the third world’s demand for imports. He therefore advocated a policy of high import tariffs that would “protect” industrialization in the third world (Nurkse 1953, 1961; Lal 1997, 18). However, the concept of comparative advantage proves how detrimental this policy can be.[4] If a country has a comparative advantage, then with free trade it will be the major producer of the product and will gain a profit for the production. The world market should be seen as an extension of the domestic one. Allowing people to pay the lowest price for any given good and in turn sell their products for the highest price that they can, provides for more efficiency in the economy and a higher standard of living for all (Block and Sordillo 1996; Brandly 2002; Johnsson 2004; Lal 1997, 19; Murphy 2004; Ricardo 1821). Therefore, in the case of fair trade, it is evident that in order to help the poor, we should not hobble them with artificially high prices on products because of protectionist policies. Instead, we should aim to give "fair access to the international market" (Pope John Paul II 1991, 14) by means of free trade.

A supporter of the Nurkse view might concede that free trade would benefit consumers in poor nations immediately, but he might argue as follows: In the long run those nations would be better off if they developed certain value-added industries that could need protection from foreign competition in their early stages. However, who is to make any such determination? If private individuals felt this way, tariffs would be unnecessary. They could *invest* sufficient funds to make their product viable in the short run, until their infant industry grew to maturity. Indeed, this is the path of *every* start-up company, without exception. Initially, it loses money, and necessarily so. This is what always occurs during the period when the business is being set up, the plant built, the workers hired, and the publicity arranged. All during this set-up time, there are expenses, but no revenues, because no sales have yet been made.[5]

Suppose that the trade protectionists are correct. This means that agricultural exporters must be poor when they engage in trade with industrialized areas. If so, then Iowa and Kansas must be impoverished, for they specialize in foodstuff production and have nary a factory in their entire territories. This, of course, is nonsense on stilts. Not every place can be devoted to mills and mines. If hardly anyone grew food, then those who did so would become fabulously rich. Would Montana and Wyoming really enrich themselves if they tried to set up automobile plants in their territories?

If states should not trade with one another, given that protectionist sentiment is correct, then neither should cities. Why should Chicago import refrigerators, pianos, and sailboats? Maybe they should make these items themselves in the Windy City. This same argument applies not only to cities, but to neighborhoods, families, and even individuals. At last, we have reached the *reductio ad absurdum* of this entire line of thought: Each person should refrain from trade with all others and, instead, become self-sufficient. Even a person with the meanest of intelligence will see that this is a recipe for mass starvation and the death of practically everyone on the planet. The law of comparative advantage, anyone?

Workers' Rights

Catholic social teaching usually refers to workers rights being violated in two situations. The first is in agricultural societies where the land is owned by a small group of rich landowners and is farmed by the poor. Pope John Paul II refers to such a situation in *Laborem Exercens*. "In certain developing countries, millions of people are forced to cultivate the land belonging to others and are exploited by the big landowners, without any hope of ever being able to gain possession of even a small piece of land of their own" (Pope John Paul II 1981, 37). The usual remedy suggested in this situation is to either collectivize the farms, meaning give them in their entirety to the people who farm them, or redistribute, break them into small pieces to give to each farmer individually.

The first reduces the incentive to work because the profit that one gains from work is distributed among the entire society, and also the loss that is associated with shirking is distributed among all members. Therefore, if one worker decides to produce only as much as the rest, the total production of the farm will go down only fractionally, rewarding his shirking with a personal profit of additional leisure. In this situation, a rational actor would shirk in order to gain as much utility as possible. When Mauritania allowed the privatization of collective farms along the Senegal River, rice production increased from three thousand to eighty thousand metric tons in five years (Osterfeld 1992, 76). If any further evidence of this phenomenon were needed, one could resort to the example of the collectivized farms in the Soviet Union, which brought mass starvation in their wake (Conquest 1986). According to Cosmides and Tooby (2006, 201):

> One of many natural experiments was provided by agricultural policy in the former Soviet Union. The state nationalized farmland and forced farmers to organize their labor as a collective action. But they allowed 3 percent of the land on collective farms to be held privately, so local farming families could grow food for their own consumption and privately sell any excess. The results were striking. Estimates at the time were that this 3 percent of land produced 45 percent to 75 percent of all the vegetables, meat, milk, eggs, and potatoes consumed in the Soviet Union.

The second situation, redistribution, decreases the overall efficiency that is gained with larger farms, eliminating the comparative advantage that underdeveloped countries have in the agricultural market. Another decrease in purely economic efficiency comes about due to the vociferous opposition to land-reform measures. Because land accounts for roughly 10 percent of GDP, it might well be that the recipients would be economically better off if they left off their quest for redistribution and turned their efforts in different directions. However, this practice is morally correct in cases where land was stolen generations ago in order to have the larger farms. It still puts the poor at a disadvantage because it reduces the value of their major means of earning income (Alston and Block 2007;

Block 2002; Block and Yeatts 1999–2000). That is, merely because something is just (land reform in the case of stolen property) is no guarantee that it will be economically advantageous to the rightful recipient.

Another aspect of underdeveloped countries is also often cited as exploitative of workers rights. This is the practice of large corporations setting up manufacturing plants in the third world where the workers are paid a wage that is extremely low compared to that of the countries in the first world, commonly known as sweatshops. On the basis of this supposed exploitation, the Catholic Church and many others argue for higher wages, or what is called a living wage.

However, there is no exploitation if the workers are freely accepting the terms of employment and there is no fraud taking place. Indeed, under these assumptions, it would be logically impossible for any such thing to occur, at least in the *ex ante* sense. For, if these third world workers were offered poorer terms by the multinational corporations than those available to them from domestic sources, why ever would they take these jobs? Pope John Paul II implicitly concedes this point in *Centesimus Annus* but fails to see the benefits of such foreign plants: “Thus, if not actually exploited, they are to a great extent marginalized; economic development takes place over their heads, so to speak, when it does not actually reduce the already narrow scope of their old subsistence economies” (1991, 13).

This could not be further from the truth. The companies building factories in third world countries actually bring the populations of those countries into the modern industrialized prosperous world economy. Far from “reducing the already narrow scope” of their economies, these companies are expanding the opportunities of these people as is proven by their willingness, one could even say eagerness, to work in these factories.[6] Consider the fact that the people of these nations are eager to work in these factories. Consider also that the firms have decided to locate production in these countries because of the low cost of labor. If we insist by law that the firms pay higher wages and manage to enforce it, they will indeed do so but only in areas of lower risk, closer to home, or with a more productive work force.[7] In effect, we would be hurting those we most wish to protect—the very, very poor, precisely the people being so heavily exploited, by being paid wages not hitherto dreamed of. Some may say that there is no dignity in working sixteen-hour days on an assembly line for wages that are low by civilized standards. The fact remains that taking away one of the few opportunities these people have hurts their dignity far more than otherwise. It not only robs them of the freedom to choose; it also gravely reduces their level of economic welfare.

Foreign Aid

Perhaps one of the most important factors in the development of countries is their relationship with the rest of the world. Economically, the relationship consists of three factors—trade, investment, and aid. We have already established the benefits of free trade to both the poor and the entire economy of any nation; we will now turn our discussion to the last two. It has been stated in numerous papal encyclicals that it is the duty of the rich nations to help the poor. There are two ways in which this can be accomplished: investment and aid. Of the two, it is obvious from a free-market point of view that investment would be preferred because it allows the market to efficiently allocate resources, while aid, being a political process, is not necessarily efficient nor, in the libertarian view, just.[8] However, although the Catholic Church says nothing against investment, it is clearly in favor of foreign aid, both in terms of straight money gifts and debt cancellation (Pope John Paul II 1991, 14).

Foreign investment consists of both capital loans made to private businesses in these underdeveloped countries and foreign corporations setting up operations there. A characteristic of most third world countries is instability either politically; economically; or, as is in most cases, both. This increases risk. Greater expected returns are needed in order to attract investors. It is for this reason that corporations look to take advantage of cheap labor by investing in third world countries. Many people see evil not only in the conditions and pay of the workers but also in the fact that a foreign entity is making profits from the labor and resources of the poor country. This attitude runs directly counter to the primordial truth that trade is a positive-sum game. Contrary to the nattering nabobs of negativism, the employees are benefiting from the trade, thus making the country better off.

The alternative to private foreign investment is foreign aid given to the governments of these nations to stimulate development. There are several reasons why this will fail. One, the least among them, is governmental corruption, both for recipient and donor nation. Then, there is the point that the state cannot efficiently allocate resources;[9] therefore, the aid tends to cause the economies of the third world to stagnate under the protective barrier of outside money.

However, this is only the beginning of the problems with foreign aid. While the government to government transfers[10] of funds accounts for a small percentage of donor GDP, it takes up a large share of the budget of the recipient. This has several negative implications. Instead of the young people in the third world being led by Adam Smith's "invisible hand" into careers where they can do some good for their countries, such as doctor, nurse, engineer, farmer, or entrepreneur, they gravitate toward professions more attuned to accessing a share of this foreign largesse: bureaucrat, lawyer. Then, too, this promotes or exacerbates tribal warfare; whichever group can turn the almighty spigot in its own direction can attain great power. This leads to the three M's (Bauer 1981) of foreign aid: monuments, Mercedes, and machine guns. The first need not be a statue of the dictator, although it often takes this shape. As well, it can consist of a steel mill, for national pride, whose end products cost far more than that available on international markets. The second aids the minions of the successful faction in their transportation needs, and we all know the function of the third.[11]

To complicate matters further, many commentators call for the cancellation of debts of underdeveloped countries. In *Solicitudo Rei Socialis* Pope John Paul II speaks of debtor nations finding "themselves in a position of exporting their capital to service their loans" (1987, par. 19). Of course they find themselves in this position. This is what a loan is. You borrow money now with a promise to pay it back in the future. How would they pay back the loans if not by exporting capital, or labor, or consumer goods?

Pope John Paul II also calls for the cancellation of debts in *Centesimus Annus*, stating that "it is not right to demand or expect payment when the effect would be the imposition of political choices leading to hunger and despair for entire peoples" (p. 14). It is not only right to expect payment from a debtor but also to demand it. If the country will not or cannot pay its loans, its creditworthiness will plummet, but it is not a foregone conclusion that its people will starve. If reneging on loans eventuates in a change of administration, poverty might even decrease.

Cancelling loans results in one of two things. First, the governments of the private investors can compensate them. This does nothing to help the poor; it simply maintains the status quo, with the exception that this signals to potential private investors that the country is more risky to invest in, thus causing harm to that economy. The second option is also dangerous. It encourages poor practices on the part of foreign investors, leading to a misallocation of resources that helps keep the mismanaging governments in power. This can only hurt the poor because these regimes tend to be oppressive in nature. There is no need for the World Bank to demand that a government change its policies on economic and political freedom in order to get a loan. Because freedom leads to a more prosperous, stable economy (Gwartney, Lawson, and Block 1996), private investors would tend to place more funds in those lands that had these qualities; therefore, effectively influencing governments to act for the good of their people through market means.

Poverty, Dignity, Economic Development, and the Catholic Church

In development economics, there are many who say that the only way to achieve success is with lots of foreign aid and governmental controls, and the Catholic Church has certainly subscribed to this view. It does so based on the preferential option for the poor and the concept of human dignity. However, the poor do not benefit from these policies. In fact, they are often the ones who are hurt most by them.

The Church in Costa Rica Mistakenly Opposes Markets

Introduction

Throughout history, the Roman Catholic Church has played a significant role in economic decision-making in Costa Rica. Although the Church is separate from the state, it is still highly influential. In recent years, Costa Rica has become more globalized, yet, at the same time, there is a significant sector of the population that is highly opposed to this way of thinking. As in all areas of the world, there are those who strongly oppose an open market, which is seen as being devastating to the poverty stricken. The idea behind this opposition is that it makes the rich richer and the poor poorer.

The Church has expressed its opinion concerning a myriad of topics. Regarding economic considerations, it has publicly addressed the attempts to privatize the government agency that provides electricity, and what it thinks are the negative effects of free trade on small farmers. Although the Catholic Church's intentions are good, the propositions it is making would in no way help the Costa Rican population. Indeed, the very opposite is the case: interferences with markets and free trade will not at all promote the common good.

At the Episcopalian Conference of the Catholic Church in Costa Rica (EC, 2000), the bishops stated that they attempt to represent those who have no voice. Therefore, the bishops claimed that the church makes a strong effort to relieve the plight of those who are less fortunate by trying to put an end to their problems. They argue that human beings are the center of all economic activity and that their main objective is the improvement of standards of living (EC, 2000, 5). What must be analyzed in regard to this argument is the means that the bishops employ toward achieving their goals. Although the Church has the best intentions in trying to reach the common good, its means do not achieve this goal.

Privatizing Electricity and Agriculture

In the year 2000, there was an attempt to privatize the Costa Rican Institute of Electricity (ICE), which is in charge of handling not only that service, but all of the nation's phone lines as well. Although a large portion of the population agreed with its privatization, an enormous number also disagreed with it. In fact, this attempt triggered the biggest street protests in Costa Rica in more than fifty years.

On November 1, 2001, the Costa Rican bishops openly criticized the government for neglecting the agricultural sector (Barquero and Delgado 2001). The Catholic Church strongly disapproved of the government for ignoring small farmers. It emphasized how the process of economic globalization has made these farmers significantly worse off. According to Bishop Angel Sancasimiro the different free-trade treaties, which Costa Rica signed in the 1990s, have almost destroyed the small farming sector.

One of the main recommendations provided by the bishops in regard to the privatization of the ICE was (EC, 2000, 7): "Costa Rica's experience, as well as other regions of the third world, has taught us that the opening [of markets], can cause the most profitable parts of a business to fall in the hands of the private sector, which does not allow the state to subsidize the less privileged sectors and the rural areas." This, however, is an unsupported assumption. It is true that once a market is opened the private sector is strong, yet this is something that is *beneficial* to society. Private firms help society significantly, the economic illiteracy of the bishops to the contrary notwithstanding.

First of all, consumers benefit from the private sector because it is more efficient than government-run monopolies as a result of competition in markets. In the former case, there is no automatic weeding-out process of bankruptcy for inefficiency; in the latter realm, this is the very *essence* of its operation. Surely, we can expect better results from a system that continually prunes out weak operators than from one that fails to do so. There is even a wealth of strong empirical evidence attesting to this fact. It is so well established that it has garnered a popular descriptive phrase, "the rule of two." This means that private enterprise is usually half as much as public sector services and sometimes even less (Adie 1988; Ahlbrandt 1973; Alston 2007; Anderson and Hill 1996; Bennett and DiLorenzo 1982; Boardman and Vining 1989; Borcherding 1977; Borcherding et al., 1982; Clarkson 1972; Davies 1971; De Alessi 1982; Fitzgerald 1988; Hanke 1987; Megginson and Netter 2001; Moore and Butler 1987; Moore, T. 1990; Poole 1976; Priest 1975; Savas 1987; Vining and Boardman 1992; White 1978).

In addition, the Costa Rican bishops are out of step with the leader of the Catholic Church, which is at least sometimes a strong advocate of private property rights and economic freedom: In the papal encyclical *Centesimus Annus*, Pope John Paul II (1991, 21:10) argues that socialism is ineffective in part because of its lack of private property rights.[12]

The Costa Rican bishops argue that subsidies might be needed to give access to basic services to an underprivileged sector of the population. Even if private enterprise can provide those services more cheaply on the whole, it might still be the case that the poorest might not be able to afford them without subsidy. Why, however, call upon *government* to do this, as they do? Should this not be part of *private* responsibility—preeminently that of the Church itself? After all, the state can raise such monies only at the point of a gun; charity, in stark contrast, is based on considerations one would have thought more congruent with religious precepts.[13]

Wages

A second argument that the bishops uphold (EC, 2000, 4) is the idea that "mankind considers earnings and the laws of the markets to be the absolute parameters in determining the dignity and respect towards people and nations.… In fact, the poor are becoming more and more numerous, victims of certain policies and frequently unjust structures." With this argument, the bishops are referring to labor markets, and to policies that supposedly do not take into consideration the needs of the poor, for example, jobs that pay very low wages. The reason there are greater numbers of people considered to be poor is in fact due to "certain policies and frequently unjust structures." This refers, preeminently, to the minimum-wage policy. If society allowed markets to function freely, there would be no artificial unemployment for the lesser skilled.

However, with minimum-wage laws, the government boosts required pay beyond productivity levels. This causes unemployment, because it does not allow individuals to work for a lower wage. For example, if the minimum wage is seven dollars per hour, but the worker is capable of producing only five dollars per hour, any employer foolish enough to hire him will *lose* two dollars per hour on him. Why do so when the alternative is not to hire him at all, and, thus, cast him into the ranks of the unemployed?

Sustainable Development

The Costa Rican church officials also had an opinion regarding sustainable development (EC, 2000, 5). "We have to ask ourselves if all these aspirations are legitimate, and who will pay the costs of this so-called development; and furthermore, who will benefit from this. It cannot be a development which privileges the minorities at the expense of the large majority of impoverished peoples of the world."

There are problems here. The people who "pay" for economic development are those who curtail their consumption, increase their savings, and engage in investment. This is a free choice made by those who wish to do so. In other words, from their own perspective, they regard the option of less consumer spending now, and the prospect of more, later, as preferable to any alternative behavior. So, while they may pay for these choices, they see them as beneficial. In the very nature of things, furthermore, it is the rich who are disproportionately overrepresented in the numbers of people who in this way promote economic development. The wealthy are more able to save for the future than are the poor who typically live closer to a hand-to-mouth existence. To the extent the bishops are concerned about the act of wealth creation (saving and investment) harming the poor, they need have no fear in this regard, for both these reasons.

Moreover, virtually *all* development benefits the rich before the poor. Who will be the first to enjoy computers, horseless carriages, and televisions sets? Obviously, the wealthy. When these items are first brought to market, they are typically very expensive. It is only later, when production can be organized on a mass basis, that the poor, too, can enjoy them. To legislatively insist that no new products be marketed until the poverty-stricken can enjoy them on an equal basis with the affluent is a recipe for the status quo: It will be the very rare new good or service that will ever be introduced. Surely, the poor who have to "wait their turn" at the end of the queue for new items will be better off than the impecunious who never get them at all, because the bishops' concerns are legislatively enacted, and no one can access anything new.

Selfish Consumerism

The fourth point the bishops reflect on is that they consider the mentality of consumerism and selfishness as a dangerous sign of our times. Nonetheless, in economic terms, consumerism can be good. The fact that a person is able to consume means that he has produced goods, and thus, this person has earned wages, which he can then spend. This spending helps to pay wages to other people in society, and with this, still more things can be produced.

This also contradicts the Church's doctrine of the "preferential option for the poor." What does this mean? It means that the poor should *consume* more than they already do, but if consumerism is a bad thing, then, presumably, the poor, as well as the rich, should not engage in it. So much for a preferential option for the poor to *consume more*. If taken literally, an attack on consumption is also an attack on human life, for if we do no not eat, we die. However, the Catholic Church, in its analysis of just war and opposition to abortion takes a thoroughgoing pro-life position. It is exceedingly difficult to reconcile these perspectives with an opposition to consumption.

The bishops argue that even though the church recognizes that it is acceptable that individuals are free to buy, sell, and produce, this does not guarantee that the market will be able to offer all the goods that society needs. This is once again an instance of economic illiteracy from the church officials. Given scarcity, there is no economic system that can accomplish this task. However, a free market is the best system known to man for, if not overcoming this problem, then at least dealing with it. The fact that a free market cannot entirely eliminate scarcity is definitely not a valid criticism of it, given that all other systems do far worse in comparison.[14]

In addition, the church reminds Costa Rica's legislators that they have a duty to strive for the common good. However, the bishops are vague in how they wish for this to be accomplished. The best way to do this would be to eliminate government intervention in the market. The bishops argue that people should be considered as the center of all economic activity (EC, 2000, 7). However, the necessary, albeit not sufficient, condition for the improvement of individuals' standards of living is to eliminate government intervention; this is something not contemplated by the clerics.

It might be objected that we are being unfair to the Catholic Church for opposing consumerism, on the ground that no one would characterize the consumption of food, water, and so forth necessary for life as consumerist. We readily concede that of course not all Catholic spokesmen object to consumerism, but certainly many do just that. When they do, they are required to accept the logical implications of their own thesis. To attack consumption is indeed to criticize those who consume, period. If the argument is that the rich consume too much, leaving too little for the poor, this claim founders on the shoals of the zero-sum fallacy. The market is a *positive*-sum game, whereby *all* who participate in it are bettered by it, at least in the *ex ante* sense. Otherwise they would scarcely enter into it in the first place.

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Multinationals and Free Trade from a Costa Rican Perspective

The Church urges that measures be taken so that governmental institutions and the Costa Rican people do not remain unprotected in the event of the arrival of multinational corporations, which represent new monopolies and hinder competition. However, if there truly is free trade and multinational corporations enter Costa Rica, there will be *more* competitors, not fewer. Nevertheless, this all depends on the rules of the game. If there were little government intervention, the entrance of these corporations would create numerous jobs, which would help the Costa Rican population significantly. However, with policies such as minimum wages, other strong labor laws, social security, and free insurance for everyone, not as many jobs can be created. Yet, even with the existing legislation and government intervention, this arrival of corporations is to be welcomed as a step in the right direction. The new entrants *must* make offers to Costa Rican workers, land owners, and consumers better than the ones they already have at their disposal, otherwise they would not be able to make any headway. They would not be able to set up shop, purchase raw materials, or hire a labor force were this not so.

The bishops also criticized the way in which the process of globalization, by means of free-trade treaties, have ruined the agricultural sector (Barquero and Delgado 2001). The church officials declared that there was a need to create policies in order to help this sector of the economy. This statement is quite vague, yet it is possible to conclude that because they are criticizing free-trade treaties, they want the government to protect the agricultural sector by means of tariffs, quotas, or subsidies. Once again, this "solution" is mistaken.

There is, of course, an alternative interpretation possible: that these clergymen are criticizing groups such as NAFTA, CAFTA, and the WTO *not* because they are movements in the direction of free trade, but, rather, due to the fact that they are merely customs unions and do not at all constitute full free trade (McGee 1994; Murphy 2006; Rockwell 1995a, 1996; Rothbard 1993a, 1993b, 1993c, 1995; Tucker, J. 1995, 1996; Vance 1996). This would be a position very much in keeping with improving the lot of the people of Costa Rica. Unfortunately, while their statement in this regard is vague enough to support such a construal, reading in between the lines, in view of the socialist tenor of the remainder of their essay, we cannot bring ourselves to a belief in this understanding.

Assuming, then, that the Costa Rican bishops are really protectionists, what can be said of their views? The purpose of tariffs and quotas is to protect domestic producers from international competition, but this hurts consumers. However, church officials seem to be unaware of this argument.

If countries were allowed to produce and export efficiently, that is, under free trade, they would only have to import products that are more expensive to produce domestically. This is what is known as comparative advantage and specialization. With protective measures, domestic producers are granted an artificial advantage compared to foreign countries. To maximize human welfare, all countries should strive to specialize in the production of whatever they can do best (Block, Horton, and Walker 1998; Brandly 2002; Brown 1987; Friedman and Friedman 1997; Johnsson 2004; Murphy 2004; Ricardo 1821; and Smith 1776).

One erroneous argument for trade protection is that these tariffs are required in order to keep the jobs of local workers. In other words, by opening the borders to free trade, it is said that foreigners will take the jobs of domestic employees. When tariffs are created, they are advertised so as to support local production and to decrease imports. Some continue to believe that as a result, domestic employment is protected. In a sense, this is true; but what is the point of protecting jobs where productivity is lower than it otherwise could be? The point of a market is to maximize the value of production, not jobs per se (Hazlitt 1979). When the music teacher wants a car, she does not get a job in automobile production; rather, she continues to instruct students in the finer points of playing the cello, and purchases a vehicle with the proceeds. Why? She can get more "car" indirectly by teaching music than directly by purchasing a car. It is the same with a nation such as Costa Rica. Why protect jobs producing less value, when greater value could be achieved through international trade? With free trade, there would of course be some jobs lost in industries that were no longer productive. When the automobile was first produced, large numbers of jobs were lost in the horse-and-buggy industry. The people switched from that which used to be productive to that which presently increased labor value. Would the Costa Rican bishops want to save these lost jobs? Suppose Canada had a banana industry (in hot houses), and Costa Rica utilized part of its labor force producing maple syrup (in gigantic refrigerators). Along comes free trade and the northern country produces all the syrup needed by both countries, as does the southern one all the bananas. Would the Costa Rican bishops bewail the loss of jobs in Canadian bananas and Costa Rican maple syrup? They would, if they remained true to their economic principles, but this just shows how silly they are.

When a tariff is created and implemented on a foreign product, local buyers will have to pay a higher price than if the tariff was never imposed. Aside from paying an elevated price, the substitute national good would also cost more since the tariff will basically tend to eliminate the need for competition to keep prices lower (McGee and Block 1997). Specialization is essential in an economy. People use a myriad of products daily, and if it were not for the division of labor thereby made possible, every person would have to make these products themselves. This, of course, is very inefficient and basically impossible. Many protectionists ignore exports. They do not admit that for one job lost in the national industry due to competition with imports, another more productive job can be created in an industry that produces exports.

Conclusion

Woods (2002, 5) states, “In sum, much of the economic counsel set forth as Catholic social teaching[15] over the past century suffers from logical flaws and is factually mistaken in a number of its assertions. Such a position, whether or not its proponents realize it, represents the triumph of will over intellect, of the substitution of arbitrary will and desire for a rational assessment of laws of social interaction and the inevitable consequences of violent interference in that interaction.” Just prices and just wages are determined by the invisible forces of supply and demand. When prices are regulated by a government, this eventually leads to economic disaster and markets that are distorted. Due to the fact that the prices of goods are related internally, it makes no sense to only regulate the prices of finished products. “If the authorities were to regulate the prices of bread and shoes, the prices of wheat and leather must also be kept under control. If not, then distorted growth takes place in the production line or between this and the distribution line” (Woods 2002, 7).

In the view of Woods (2002, 9), “Domingo de Soto stated the matter even more concisely, concluding that ‘if they freely accepted this salary for their job, it must be just.’ He held that ‘no injury is done to those who gave their consent.’” Woods (2002, 9) argues that there is a need to distinguish between goals and means:

> One of the goals of the Schoolmen’s economic policy recommendations, as of any other school of thought, is the betterment of the worker’s condition. Nonetheless, they understood that tampering with the market would be inconsistent with their goals. These reasons, and not a lack of charity, were the basis of their proposals. Those who criticize Late Scholastic wage theory for so-called “lack of compassion” demonstrate their lack of understanding of the market.

The Costa Rican bishops are attempting to provide a higher standard of living to the Costa Rican citizens. Nevertheless, the means they suggest would only distort the prices and the market and would eventually hurt the population instead of helping it.

Notes

1. By this it is assumed that the pope is referring to trade restrictions such as tariffs because he speaks about these in the paragraph immediately before this quote.

2. All too often these nations are characterized as "developing." This is the triumph of hope over reality. The unhappy situation is that the poorest nations are actually undergoing the very opposite: declining. Mislabeling the situation is not a good way to start off in the quest to ameliorate it.

3. A concept commonly known as rich man's guilt is often stated as the reason behind our emotional evaluation of the plight of the poor. Because we in the first world are generally well off, we want the entire world to be well off so that we do not have to feel guilty about our way of life. For this reason, many people support policies simply because they give money to the poor; this assuages their guilt in a way that "cold, calculating" economic analysis rarely can.

4. Having a comparative advantage means to be the party that sacrifices the least production of one good in order to produce another. This is not to be confused with absolute advantage, which is simply based on the most efficient production of a good.

5. For more on the fallacies of this infant industry argument, see Mark Brandly, "A Primer on Trade," November 4, 2002, available online at http://mises.org/story/1084; Ludwig von Mises, *Nation, State, and Economy*, trans. Leland B. Yeager (New York: New York University Press, 1983); Robert N. Murphy, "Some Subtler Arguments for Tariffs," December 9, 2003, available online at http://www.mises.org/story/2001; and Murray N. Rothbard, *Protectionism and the Destruction of Prosperity* (Auburn, Ala.: Ludwig von Mises Institute, 2005).

6. The claim that third world people are eager to work in these factories is based on the fact that the wages offered, even though low by Western standards, are very high compared to their other options. This suggests that there are no better opportunities for them in the area.

7. A more productive work force could be a result of higher literacy rates or areas where people are stronger because they get better medical attention and proper nutrition.

8. This refers to the libertarian view that any taxes the government takes above those needed for national defense, police, and courts, is coercive and therefore amounts to stealing. Theft is unjust no matter how good the intention, or even the result. See on this David Bergland, *Libertarianism in One Lesson* (Harrow, Middlesex UK: Orpheus Publications, 1986); David Boaz, *Libertarianism: A Primer* (New York: Free Press, 1997); David Friedman, *The Machinery of Freedom: Guide to a Radical Capitalism*, 2d ed. (La Salle, Ill.: Open Court, 1989); Hans-Hermann Hoppe, *The Economics and Ethics of Private Property: Studies in Political Economy and Philosophy* (Boston:

Kluwer, 1993); Charles Murray, *What It Means to Be a Libertarian* (New York: Broadway Books, 1997); Robert Nozick, *Anarchy, State and Utopia* (New York: Basic Books, 1974); Murray N. Rothbard, *For a New Liberty* (New York: Macmillian, 1973): Murray N. Rothbard, "Ludwig von Mises and Economic Calculation Under Socialism," in *The Economics of Ludwig von Mises*, ed. Laurence S. Moss (Kansas City: Sheed & Ward, 1976), 67–77; Murray N. Rothbard, *The Ethics of Liberty* (Atlantic Highlands, N.J.: Humanities Press, 1982); William C. Woolridge, *Uncle Sam the Monopoly Man* (New Rochelle, N.Y.: Arlington House, 1970).

9. This was the conclusion of the socialist calculation debate. See on this Peter J. Boettke," The Austrian Critique and the Demise of Socialism: The Soviet Case," in *Austrian Economics: Perspectives on the Past and Prospects for the Future*, vol. 17, pp. 181–232, ed. Richard M. Ebeling (Hillsdale, Mich.: Hillsdale College Press, 1991); James Dorn, "Markets True and False in Yugoslavia," *Journal of Libertarian Studies* 2, no. 3 (Fall 1978): 243–68; Richard M. Ebeling, "Economic Calculation Under Socialism: Ludwig von Mises and His Predecessor," in *The Meaning of Ludwig von Mises*, pp. 56–101, ed Jeffrey Herbener (Norwell, Mass.: Kluwer Academic Press, 1993); Nicolai Juul Foss, "Information and the Market Economy: A Note on a Common Marxist Fallacy," *Review of Austrian Economics* 8, no. 2 (1995): 127–36; David Gordon, *The Machinery of Freedom: Guide to a Radical Capitalism*, 2d ed. (La Salle, Ill.: Open Court, 1990); Trygve J. B. Hoff, *Economic Calculation in a Socialist Society* (Indianapolis: Liberty Press, 1981); Hans-Hermann Hoppe, *A Theory of Socialism and Capitalism* (Boston: Kluwer Academic Publishers, 1989); William Keizer, "Two Forgotten Articles by Ludwig von Mises on the Rationality of Socialist Economic Calculation," *Review of Austrian Economics*, vol. 1 (1987): 109–22; Israel M. Kirzner, "The Economic Calculation Debate: Lessons for Austrians," *Review of Austrian Economics*, vol. 2 (1988): 1–18; Peter G. Klein, "Economic Calculation and the Limits of Organization," *Review of Austrian Economics* 9, no. 2 (1996): 3–28; Ludwig von Mises, "Economic Calculation in the Socialist Commonwealth," in *Collectivist Economic Planning*, ed. F. A. Hayek (1933: rpnt; Clifton, N. J.: Kelley, 1975); Ludwig von Mises, *Socialism* (1969, rpnt: Indianapolis: Liberty Press, 1981); E. C. Pasour, Jr., "Land-Use Planning: Implications of the Economic Calculation Debate," *The Journal of Libertarian Studies* 7, no. 1 (Spring 1983): 127–39; Morgan O. Reynolds, "The Impossibility of Socialist Economy," *The Quarterly Journal of Austrian Economics* 1, no. 2 (Summer 1998): 29–43; Sheldon L. Richman, "War Communism to NEP: The Road from Serfdom," *The Journal of Libertarian Studies* 5, no. 1 (Winter 1981): 89–98 ; Murray N. Rothbard, "Lange, Mises and Praxeolory: The Retreat from Marxism," in *Toward Liberty*, vol. 2, pp. 307–21 (Menlo Park, Calif.: Institute for Humane Studies, 1971); Murray N. Rothbard, "Ludwig von Mises and Economic Calculation Under Socialism," in *The Economics of Ludwig von Mises*, pp. 67–77, ed. Laurence S. Moss (Kansas City: Sheed & Ward, 1976); Murray N. Rothbard, "The End of Socialism and the Calculation Debate Revisited," *Review of Austrian Economics* 5, no. 2 (1991): 51–70; Joseph T. Salerno, "Postscript: Why a

Socialist Economy Is 'Impossible,'" in *Ludwig von Mises, Economic Calculation in the Socialist Commonwealth*, pp. 51–71 (Auburn, Ala.: Ludwig von Mises Institute, 1990); Joseph T. Salerno, "A Final Word: Calculation, Knowledge and Appraisement," *Review of Austrian Economics* 9, no. 1 (1995): 141–42.

10. This is a far more accurate characterization because it leaves open the question as to whether they actually cure poverty. See on this Peter T. Bauer, *Equality, the Third World, and Economic Delusion* (Cambridge: Harvard University Press, 1981); Peter T. Bauer and Basil S. Yamey, *The Economics of Under-Developed Countries* (Chicago: University of Chicago Press, 1957).

11. For further elaboration, see Alberto Alesina and Beatrice Weder, "Do Corrupt Governments Receive Less Foreign Aid?" *American Economic Review* (September 2002); Bauer, *Equality*, 1981, Peter T. Bauer, "Ecclesiastical Economics Is Envy Exalted," *This World*, no. 1 (Winter/Spring 1982): 56–69; Peter T. Bauer, *Reality and Rhetoric: Studies in the Economics of Development* (Cambridge: Harvard University Press, 1984); Peter T. Bauer, *The Development Frontier: Essays in Applied Economics* (London: Prentice Hall, Harvester Wheatsheaf, 1991); Bauer and Yamey, *Economics of Under-Developed Countries*; Eugene W. Castle, *The Great Giveaway: The Realities of Foreign Aid* (Chicago: H. Regnery Co., 1957); Thomas S. Loeber, *Foreign Aid: Our Tragic Experiment* (New York: Norton, 1961); Desmond McNeill, *The Contradictions of Foreign Aid* (London: Croom Helm, 1981); Roger Riddell, *Foreign Aid Reconsidered* (Baltimore: Johns Hopkins University Press, 1987); Murray N. Rothbard, "A Hard Look at Foreign Aid," review of *Foreign Aid Reexamined*, ed. H. Schoeck and J. Wiggins, in *National Review* (November 8, 1958): 313–14; Mark Thornton, "Corruption and Foreign Aid" (November 2002); Jeffrey Tucker, "The Marshall Plan Myth," *The Free Market* 15, no. 9 (September 1997); Laurence M. Vance, "The Foreign Aid Debacle," *The Free Market* 18, no. 4 (April 2000).

12. He argues against socialism and promotes free markets. "[A] factor in the crisis was certainly the inefficiency of the economic system, which is not to be considered simply as a technical problem, but rather a consequence of the violation of the human rights to private initiative, to ownership of property and to freedom in the economic sector."

13. See on the case for substituting private charity for government welfare programs: Gary Anderson, "Welfare Programs in the Rent Seeking Society," *Southern Economic Journal*, no. 54 (1987): 377–86; Martin Anderson, *Welfare: The Political Economy of Welfare Reform in the United States* (Stanford: Hoover Institution, 1978); Arnold Brown, "The Shadow Side of Affluence: The Welfare System and the Welfare of the Needy," *Fraser Forum* (October 1987); Robert Higgs, "The Myth of 'Failed' Policies," *The Free Market* 13, no. 6 (June 1995); Nicole LaBletta and Walter Block, "The Restoration of the American Dream: A Case for Abolishing Welfare," *Humanomics*

15, no. 4 (1999): 55–65; Charles Murray, *Losing Ground: American Social Policy from 1950 to 1980* (New York: Basic Books, 1984); Marvin Olasky, *The Tragedy of American Compassion* (Chicago: Regnery Gateway, 1992); Rothbard, "Welfare and the Welfare State," in *The Ethics of Liberty*, pp. 160–93; and William Tucker, "Black Family Agonistes," *The American Spectator* (July 1984): 14–17.

14. Economist joke: Economist 1 to Economist 2: "How's your wife?" Replies Economist 2: "Compared to what?"

15. For more on Catholic Social Teaching, see Phillip Booth, ed., *Catholic Social Teaching and the Market Economy* (London: Institute of Economic Affairs, 2007); Art Carden, "Christian Ethics, Formal Institutions, and Economic Growth," *American Review of Political Economy* 5, no. 1 (2007): 34–53; Alejandro A. Chafuen, *Christians for Freedom: Late-Scholastic Economics* (San Francisco: Ignatius Press, 1986); Alejandro A. Chafuen, *Faith and Liberty: The Economic Thought of the Late Scholastics*, Studies in Ethics and Economics (Lanham, Md.: Lexington, 2003); Llewellyn H. Rockwell, Jr., "Free Market Economists: 400 Years Ago," *The Freeman: Ideas on Liberty* 45, no. 9 (September 1995); Murray N. Rothbard, *An Austrian Perspective on the History of Economic Thought* (London: Edward Elgar, 1995); Robert A. Sirico, *Moral Base for Liberty* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1996); Robert A. Sirico, *Capitalism, Morality and Markets* (London: Institute for Economic Affairs, 2001); Jesús Huerta de Soto, "New Light on the Prehistory of the Theory of Banking and the School of Salamanca," *The Review of Austrian Economics* 9, no. 2 (1996): 59–81; Carl Watner, "'All Mankind Is One': The Libertarian Tradition in Sixteenth Century Spain," *The Journal of Libertarian Studies* 8, no. 2 (Summer 1987): 293–310; Thomas E. Woods, Jr., "Catholic Social Teaching and Economic Law: An Unresolved Tension" (2002), available online at http//:www.mises.org/asc/2002/asc8-woods.pdf; Thomas E. Woods, Jr., "Morality and Economic Law: Toward a Reconciliation" (2004) available online at http//:www.mises.org/fullstory.asp?control=1481; Thomas E. Woods, Jr., *The Church and the Market: A Catholic Defense of the Free Economy* (Lanham, Md.: Lexington, 2005).

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