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**An Integral Vision of Economic Transformation: The Relevance of Bernard Lonergan to Debates in  
Canadian Catholic Social Ethics on the Relationship of Ethics and Economics and the Function of  
Profit**

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**An Integral Vision of Economic Transformation: The Relevance of Bernard Lonergan  
to Debates in Canadian Catholic Social Ethics on the Relationship of Ethics and  
Economics and the Function of Profit**

by

**Darlene Mary O'Leary**

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## RESUMÉ

### **Purpose of the Thesis**

In this thesis, I investigate the relationship of ethics and economics. I situate this inquiry in the context of conversations in Canadian Catholic social ethics. Further, I illustrate this relationship by focussing on the function of profit in an economy. I am addressing ethics and economics out of my own concern about the systemic social and economic problems that so many people face, nationally and internationally, and that have damaged the natural systems of the planet. The Roman Catholic tradition has a long history of social teaching that has spoken out against economic situations that have degraded human dignity and freedom. In the Canadian context, there is also a significant tradition in the official church, among theologians, and in community-based organizations to respond to economic injustice. In this thesis, I use representatives from these three areas of Canadian Catholic social ethics to situate the conversation on the relationship of ethics and economics, and to show its contributions and its limits.

### **Summary and Method**

This thesis is situated in the context of Canadian Catholic social ethics. My reason for choosing this conversation to investigate the relationship of ethics and economics is my own identity as a Canadian Catholic woman with a long-standing commitment to social justice. I have chosen to illustrate this discussion by focussing on the function of profit in an economy, as profit has become a symbol in the conflicts about economic justice, symbolizing success to some and greed to others. The

conversation partners that I have chosen reflect three significant areas of Canadian Catholic social ethics: the Canadian Catholic bishops represent the “official” church; Gregory Baum represents the voice of critical theology and critical theory; and Moses Coady and the Antigonish Movement represent the concrete community-based social economic approach. I identify the key contributions of these three conversation partners, noting that they offer a strong grounding in the principles of the Catholic social tradition. They share a deep commitment to challenging an economic situation that threatens the dignity and freedom of people. They all point to the importance of the social economy in its community-based, democratic approach to empowering those who suffer economic injustice. A key limit to all three approaches, however, is the lack of a macroeconomic analysis that could provide an alternative to mainstream analyses and could ground ethical imperatives in its very dynamics.

In addressing this limit, I turn to the work of Bernard Lonergan. Lonergan offers a macroeconomic analysis that is quite unique in that it challenges the limited single-circuit analyses that ground mainstream economics. Lonergan follows the insights of economists like Joseph Schumpeter and develops a two-circuit analysis, one that distinguishes two distinct circuits of productive activity and circulations of payments. With this distinction, Lonergan sets out the activities, relationships, and dynamic rhythms of an economic order. This analysis accounts for the elements of production and payments, their dynamic flows and fluctuations, and their effects on each other. In light of these relationships, Lonergan’s macroeconomic analysis allows for an understanding of the function of profit as a social dividend.

Loneragan's macroeconomic analysis is situated in the broader context of his work on the structure of ethics. For Lonergan, there are different meanings of the good that can be distinguished in accordance with increasingly broad horizons of concern: particular goods, goods of order, and value. Economic orders are goods of order that regularly provide particular goods to everyone. As goods of order, they are structures of collaboration and intelligence whose dynamism transcends the narrow limits of self-interest. Goods of order are situated in the broader context of progress, decline, and redemption in history. In this broader context, values function to evaluate whether or not goods of order are performing their tasks of serving the well-being of everyone. While the broader horizon of values can offer challenges and guiding principles to the economic goods of order, they still require the analytical tools to understand how economies can achieve this goal.

As the ultimate goal of solving economic problems, Lonergan's methodology of functional specialization is identified as providing a strategy for interdisciplinary collaboration that sets out the relationships of theological doctrinal directives and systematic analytical response. The eight-fold methodology of functional specialization provides a cycle of discovery and response that strategically raises the foundational question of conversions and self-transcendence in searching for solutions to problems of history. In this way, the question of God's loving presence in history becomes part of the cycle of discovery and response. This ultimately places the solution of economic problems in the context of progress, decline, and redemption in history with a broad methodological strategic response.

## **Conclusion**

The key conclusion of the thesis is that Lonergan's work is relevant to conversations in Canadian Catholic social ethics on the relationship of ethics and economics. The general applicability and complexity of Lonergan's macroeconomic analysis, ethical structure, and methodology offer an important complement to Canadian Catholic social ethics that can build on its insights and address its limits. Lonergan's macroeconomics offers a general analysis that is concretely and democratically focussed. His structure of ethics provides a framework for situating goods and values in increasingly broad horizons of concern that ground our decision-making. His methodology provides a strategy for collaborative discovery and response that can address ongoing structural and historical problems. Furthermore, all of his work is deeply grounded in an understanding of God's loving presence in history that has been informed by the Catholic tradition. The vast complexity of Lonergan's work and its concrete grounding in history, in networks of cooperation, and in the operations of consciousness make his macroeconomics, ethics, and methodology a valuable contribution to the conversation on ethics and economics and the function of profit in the context of Canadian Catholic social ethics.

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## **Introduction**

In this thesis project, I take a general approach to understanding the relationship of ethics and economics. My reason for this approach is to offer a tool of analysis that would be relevant to various contexts and situations, to professionals and academics, to everyone. Such an analytical tool would have to be able to account for complexity in economic variables and relationships, as well as the complexity of the multiple patterns of interdependent ecological, social, cultural, and historical relationships of our living. I hope to offer a glimpse at such an effort in highlighting some of the insights of theologian Bernard Lonergan.

Although I am tackling a general relationship, my inquiry is situated in a particular conversation. As with any journey of discovery, this project is strongly informed by my own personal history and context. The decision to situate myself in the conversation on ethics and economics in Canadian Catholic social ethics emerges from my own identity as a Canadian woman of Irish-Catholic heritage with a long standing commitment to social justice. I was privileged to spend my childhood in rural Prince Edward Island in the 1970s and 1980s. The romance of living in such a beautiful place was tempered by the awareness of the harsh lives that many people had to endure. The farming and fishing communities were still dominant then, but the fluctuations in seasons left little long-term security. The livelihoods of many people were tenuous and

dependence on government social support was common. Family members often had to work more than one job, and seasonal workers would struggle to make up enough weeks to qualify for employment insurance. These struggles continue to the present day throughout the Atlantic provinces of Canada, and they certainly have been part of the long history of that region.

As a child, I was not aware that I had entered into the Catholic tradition at a time of great change. The effects of the Second Vatican Council were still very new, and many churches were still battlegrounds for those resisting and those supporting the transformation. I was not aware of the many voices from the Catholic Church and other Christian denominations and religious groups that recognized the economic problems faced by many across Canada. But in my childhood in the 1970s and 1980s in Canada, Catholics and others were speaking out of their faith traditions against economic conditions that were destroying the dignity of many people, as well as the integrity of the planet. In my own way, in the decades that followed, I have joined them.

I have been led by many questions about meaning in life and about how to live well together, and I hold the belief that God speaks through those questions and through the discovery of answers. The questions about meaning of life have led to questions about why there is suffering. The suffering of poverty has touched my life in ways that have required a response. I have seen people being crushed under the weight of poverty, and I have felt helpless. I have witnessed people fighting for their livelihoods and their communities in the face of systematic injustice. An image that comes to mind for me to

capture this anguish is from a CBC television movie where Canadian actor Gordon Pincent plays a struggling farmer. The bank man comes to take possession of the farm in one scene, and Pincent gives an impassioned plea explaining that what the banker was taking from him was not a farm, it was his life. I see this in the fishing community of my father, great uncles, and cousins as they fight for a way of life that is dying.

In this thesis, I am entering into a conversation that has tried to hear and respond to the voices of those affected by social and economic structural injustice. The conversation in Canadian Catholic social ethics on economic problems has been long-running, involving the commitment of many academics, activists, and faith communities. I enter into this conversation with a question about the general relationship between ethics and economics, focussed specifically around the function of profit in an economy. I focus on profit because it has become symbolic in the battle between business/ mainstream economic advocates and social justice advocates. For one camp, profit has symbolized success; it is what you earn when you do things the right way. For the other camp, profit has symbolized greed, corruption, and injustice; it is what you get when you take away from others. I have not felt comfortable with either characterization, and I felt the need to understand why. The challenge for me was to situate myself in this discussion, with an effort to point to the strengths and limits of the divergent positions and to offer an alternative direction.

The conversation in Canadian Catholic social ethics on economics has many dimensions. I have narrowed the focus of this project to three main partners: the

Canadian Catholic bishops, Gregory Baum, and Moses Coady and the Antigonish Movement. These three conversation partners offer a deep grounding in the Canadian context and the Catholic tradition in responding to economic injustice. The bishops offer a voice from the official church. Gregory Baum offers a thorough grasp of social theory and social ethics. Moses Coady and the Antigonish Movement offer a grounding in the east coast context and the concrete social economic movements of their day. Each have offered significant and lasting contributions to Canadian Catholic social ethics.

The question that I put forward to these conversation partners is to account for the relationship of ethics and economics, a relationship with which they have engaged in challenging economic injustice. What are the dynamics of this relationship? What happens when an economy performs ethically? How is this illustrated in the function of profit in an economy? If the challenge that the conversation about economic justice faces is structural, then the response must be structural. But what kind of structure are we talking about when we talk about an economy?

What I have found from entering into this conversation is that my dialogue partners in Canadian Catholic social ethics have contributed a great deal to articulate and fight for the values and principles that have long been part of the Catholic social tradition. These values and principles include justice, dignity, the option for the poor, and the common good. Each of the conversation partners has challenged the inadequacy of the capitalist economic system in meeting the needs of the people and in providing for their well-being. Each has challenged the socialist alternative, noting the limits of its

conflictual and collectivist approach. Furthermore, each has recognized the need for theoretical analysis to address the complexity of the structural problems of the economy.

The limits of the conversation on economic justice in Canadian Catholic social ethics, however, is the absence of a macroeconomic analysis that would offer an alternative to the mainstream and socialist analyses. How can you provide a structural solution by using the tools of the very analyses that you are condemning? That is not to say that there are not insights in both capitalist and socialist analyses. It is to say they cannot be the foundation of an alternative response. For the bishops, Baum, and Coady the social economy emerges as a hopeful approach that has met the structural economic challenges with strong resistance. However, the social economy suffers the same limit: it does not offer a macroeconomic alternative.

The problem of the lack of a macroeconomic analysis gets to the core of the problem in the relationship of ethics and economics and in how profit functions in economies. We can be guided by the highest of values and the best of intentions to make decisions that will result in the common good, but without understanding the activities, relationships, and rhythms of economies it is a guessing game as to how this good will come about. A macroeconomic analysis must identify these activities, relationships, and rhythms, so that an ethical response is one that allows these activities to actually work well in achieving their goal. The goal is the well being of everyone, which does not happen with the magic of an automatic mechanism guided by an invisible hand. It happens when innovative and collaborative networks are guided by intelligent human

decisions. Insights into these cooperative structures are what ground the function of profit in contributing to the ultimate goal of an economy.

I believe that the ethical framework, macroeconomic analysis, and methodology of Bernard Lonergan offer an integral vision of what economic cooperative structures are, how they are situated among other social networks, and how their dynamic rhythms must be democratically directed to achieve economic well-being for everyone.

Lonergan's ethical framework identifies expanding horizons of concern that provide a structure for identifying and situating goods and values. Lonergan's macroeconomic analysis identifies the economic activities, relationships, and rhythms in two distinct circuits of productive activity and exchange that account for the dynamism of economies and provide directions for guiding intelligent and responsible economic decision-making. Lonergan's methodology of functional specialization provides a division of the tasks of discovery and response within and among disciplines that allows for collaborative efforts to reorient economics in ways that draw on theological doctrinal directives and foundational conversions. This thesis, then, brings Lonergan's ethical, economic, and methodological vision into the conversation in Canadian Catholic social ethics on the relationship of ethics and economics and on how profit functions in this relationship.

In chapter one, I introduce the Canadian Catholic social ethical context. I then proceed to identify my three conversation partners in this context. They are the Canadian Catholic bishops, theologian Gregory Baum, and Moses Coady and the

Antigonish Movement. Each of these conversation partners is solidly grounded in the Canadian Catholic social tradition. Each has been a significant voice in responding to economic injustice. The Canadian Catholic bishops offer an “official” voice to the discussion. Gregory Baum offers a Canadian critical theological voice. Moses Coady and the Antigonish Movement offer a concrete contextual voice. Each of these voices is relevant in the dialogue about the relationship of ethics and economics in Canadian Catholic social ethics. In this chapter, I address the contributions of each to this conversation. I also address the limits of the positions that they offer. Simply put, there is a lack of a macroeconomic analysis that can meet the problems that each attempts to address. The absence of such an analysis limits what can be offered as an ethical response.

In chapter two, I introduce Bernard Lonergan’s macroeconomic analysis. Lonergan’s macroeconomics is a unique alternative analysis that identifies the activities, relations, and rhythms of productive activity and exchange as the elements in a two-circuit dynamic system. Lonergan distinguishes the basic and surplus circuits as two distinct circuits of production and exchange that have their own dynamic rhythms. These rhythms must be understood in order to be managed responsibly. This is the key ethical obligation. If the dynamism of the circuits is not understood, then decisions are made that will prevent the very conditions from occurring that are necessary for achieving the economic goal of meeting the well-being of everyone.

In chapter three, I discuss the function of profit in Lonergan’s analysis. For

Loneragan, profit must be understood as emerging from the phases of the circuits of production and exchange. Lonergan distinguishes normal profit, which is the excess of income over expense in a stationary state, from profit as pure surplus income, which is the excess of income that increases in a major surplus (producer) expansion and decreases in the shift to a major basic (consumer) expansion. Its function is to support a major surplus expansion that will yield the productive innovations to allow for an eventual major basic expansion to contribute to improving the standard of living for everyone. In this sense, it is properly a social dividend. When this function is misunderstood, then decisions are made that divert profit from performing its function.

In chapter four, I discuss Lonergan's ethical framework to situate the macroeconomic analysis in a broader ethical context. For Lonergan, economies are goods of order that provide particular goods on an ongoing basis, not only to a few individuals, but to everyone. In Lonergan's structure of the good, the goods of desire, or particular goods are acquired by entering into complex networks of collaboration and innovation. These networks are structures of cooperation that allow for particular goods to be provided regularly and transcend the interest-based motivation of achieving particular goods merely for a few. The collaborative and innovative function of goods of order are further checked by the higher level of values, that take into consideration progress, decline, and redemption in history. This higher horizon of concern judges the performance of goods of order to ensure that they are actually functioning for the well-being of all. It is in this capacity that the principles of the Catholic tradition judge the

inadequacy of the economic order and provide guidance for its improvement. For Lonergan, the response of higher level values requires tools of analysis that address the problems that are being identified.

In chapter five, I outline Lonergan's methodology in an effort to point toward the long-term task of strategic collaboration in meeting the economic challenges.

Lonergan's methodology of functional specialization is a division of the operations of discovery and response that hold across disciplines. The eight functional tasks correspond with the recurrent operations of consciousness that ground knowing: research (experience); interpretation (understanding); history (judgement); dialectic (decision); foundations (decision); doctrines (judgement); systematics (understanding); and communications (experience). These tasks provide a functional basis for interdisciplinary collaboration that is required for the reorientation of disciplines. It also provides a cyclical method that strategically raises foundational questions. These questions raise the issue of conversion and self-transcendence as an ongoing challenge to the limits of narrow perspectives. The doctrinal and systematic specialties establish guiding principles out of foundational perspectives and provide analytical tools for implementing these directives. Each functional specialty performs a task that contributes to the larger collaborative project of living together. This project of history includes the ongoing gift of God's grace that requires our response in being attentive, intelligent, reasonable, responsible, and loving in ways that are strategic.

The general approach of Lonergan's macroeconomic analysis, ethical

framework, and methodology allows for their broad application. They require the contextual work of local specialists attending to the dynamic rhythms of communities and collaborating to provide data, insights, histories, positions and counter-positions, directions, principles, analytical tools, and concrete expression in an ongoing, cyclical learning process. This is a massively complex vision that requires a significant educational shift. But it is also a profoundly democratic vision. It is not to be imposed by a bureaucracy, but it is to emerge in the collaborative and intelligent efforts of all people taking care of each other in our concrete contexts. It is a vision that places us in a friendly universe where God guides us in our wonder, our desire to know, and our desire to love. For those struggling under the weight of economic injustice and for the ecosystems of the planet, the implementation of such a complex vision cannot come soon enough.

## Chapter One

### Catholic Social Ethics and Economics – The Canadian Context

#### 1.1 Introduction

Canadian Catholics have responded diversely to the social and economic problems that have emerged in this country and in the world community in recent history.<sup>1</sup> There are responses that focus on supporting charities, such as those organized by religious orders, dioceses, or parish groups; these include food banks, homeless shelters, and missionary initiatives. Along with the charity-based responses, social justice responses have challenged broader social, political, and economic structures that function regionally, nationally, and internationally. The responses to such challenges include the creation of national organizations, such as the Canadian Catholic

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<sup>1</sup> For an overview of some of the major efforts by theologians and historians and an outline of this history and action, see Gregory Baum, *Catholics and Canadian Socialism: Political Thought in the Thirties and Forties* (Toronto: James Lormier & Company, Publishers, 1980); B.G. Smillie, *Political Theology in the Canadian Context* (Waterloo, ON: Wilfrid Laurier University Press, 1982); Christopher Lind and Joe Mihevc, eds., *Coalitions for Justice: The Story of Canada's Interchurch Coalitions* (Ottawa: Novalis, 1994); E. F. Sheridan, *Do Justice! The Social Teaching of the Canadian Catholic Bishops* (Sherbrooke and Toronto: Edition Paulines and the Jesuit Centre for Social Faith and Justice, 1987); John R. Williams, ed., *Canadian Churches & Social Justice* (Toronto: Anglican Book Centre and James Lormier & Company, Publishers, 1984); *Stone Soup: Reflections on Economic Justice* (Toronto: Paulines Publishing, 1998); and Joe Gunn and Monica Lambton, *Calling Out the Prophetic Tradition: A Jubilee of Social Teaching from the Canadian Conference of Catholic Bishops* (Ottawa: CCCB Publications, 1999). For an overview of Canadian critical theologies, see Don Schweitzer and Derek Simon, eds., *Intersecting Voices: Critical Theologies in a Land of Diversity* (Ottawa: Novalis, 2004).

Organization for Development and Peace,<sup>2</sup> as well as various regional and community-based initiatives.<sup>3</sup> Critical responses have also been voiced by theologians and activists who have dedicated years to social justice work in the Canadian context as well as internationally. Some familiar names include theologians Gregory Baum, Mary Jo Leddy, Lee Cormie, feminist theologians Ellen Leonard, Shelly Davis Finson, and Mary Malone. The newer generations of theologians and activists on the Canadian Catholic scene have added their voices to the social justice movements, including critical, feminist, eco-feminist, and other theologians.<sup>4</sup> Each of these voices contributes to the

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<sup>2</sup>The Canadian Catholic Organization for Development and Peace was established in 1968 by the Canadian Conference of Catholic Bishops (CCCCB) in response to Paul VI's social encyclical *Populorum Progressio*, issued in 1967, which highlighted some issues of poverty in relation to peace in so-called developing countries. Development and Peace has also been active in regional and national issues in Canada but maintains an effort to partner with and assist groups in developing countries. See Gunn and Lambton, *Calling Out the Prophetic Tradition*, 16-17.

<sup>3</sup>I am referring here to local, regional, and national social justice groups, many of which are associated with religious orders or larger institutions. The ecumenical group KAIROS is an umbrella organization of Christian social justice groups in Canada that emerged out of the Canadian Ecumenical Jubilee Initiative, whose focus was international debt forgiveness. Other initiatives, such as the Romero House refugee community, located in Toronto, combine local, national, and international social concerns with critical theology. See Lee Cormie, "CEJI and the Ecumenical Coalitions: Hope for a New Beginning in History," in *Intersecting Voices*, 305-327; and Gregory Baum, "Critical Theologies in Canada: From Solidarity to Resistance," in *Intersecting Voices*, 49-66.

<sup>4</sup>See Baum, "Critical Theologies in Canada: From Solidarity to Resistance," 56-58; and Christina Vanin "Critical Feminist Theologies in Canada: Creating Our Own Arpilleras," in *Intersecting Voices*, 96-116. For a discussion of the emergence of feminist theology in Quebec, see Caroline Sharp, "Modernization and Exile, Liberation and Resistance," in *Intersecting Voices*, 67-82.

diversity of Canadian contextual and critical theologies.

My focus in this thesis is on the relationship of ethics and economics with regard to the role of profit in economies. Three of the most notable Canadian Catholic voices in debates about the relationship of ethics and economics and the role of profit in economies are the Canadian bishops, Gregory Baum, and Moses Coady and the Antigonish Movement of Canada's east coast. These voices overlap at points, but they are also distinct in how they have attempted to understand and address social and economic problems. I will examine these three Canadian Catholic voices by, first, discussing their ethical and theological principles in relation to economics. I will then identify the strengths and limits of their positions regarding social and economic problems, as highlighted in their understanding of the function of profit in an economy. My discussion will begin with the Canadian Catholic bishops due to their "official" voice for the Canadian Catholic church. I will follow with the work of Gregory Baum, a preeminent Canadian Catholic theologian who supports the Canadian bishops' efforts but extends the discussion regarding social theory and social economics. Finally, I will discuss the work of Moses Coady and the Antigonish Movement as strongly influencing the contemporary social economy of Canada, particularly in the east coast. My family roots are in Prince Edward Island and Nova Scotia. The east coast is, therefore, the context that has informed my own development and has fostered my concern for social and economic issues.

## 1.2 The Canadian Bishops on Ethics and Economics

The Canadian Conference of Catholic Bishops (formerly known as the Canadian Catholic Conference) was established in 1943. In 1948 the Conference created its Episcopal Commission for Social Affairs (then known as the Social Action Commission, but now commonly known as the Social Affairs Commission), whose mandate was to offer critical reflection on peace and justice issues in light of the social teaching of the Catholic Church, and to encourage and support social action.<sup>5</sup> The Social Affairs Commission is a branch of the CCCB that reports to the larger body of bishops. Further, it has been responsible for writing many of the statements on social and economic problems from the CCCB in the past several decades, including many of the bishops' pastoral statements.

The bishops were influenced in the creation of the Social Affairs Commission by conferences on Catholic social teaching held by the Quebec Jesuits in the 1920s (*Semaines sociales du Canada* or Social Life Conferences) and by the Antigonish Movement in Canada's east coast. Also, the commission was in part a response to a division among the bishops about how to respond as a body to the new Cooperative Commonwealth Federation (CCF) party, as some bishops had condemned the party outright, while others were less critical.<sup>6</sup> Although the Catholic social teaching tradition

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<sup>5</sup>Gunn and Lambton, *Calling Out the Prophetic Tradition*, 6-9.

<sup>6</sup>See Gregory Baum, *Catholics and Canadian Socialism*, 97-134. It is important to note that the bishops have offered reflections on social issues other than the economic order, such as peace and disarmament; however, this work will focus on their reflections

is commonly thought to have begun in 1891 with Leo XIII's encyclical *Rerum Novarum*<sup>7</sup>, the surge of episcopal statements really was underway in the 1960s and 1970s in North America, mainly in response to the Second Vatican Council and the emergence of Latin American liberation theologies.<sup>8</sup> The Francophone bishops of Quebec (Assemblée des évêques du Québec) have also been influential in the CCCB. Its English- and French-language sections have collaborated in response to social and economic problems regionally, nationally, and internationally.

I will focus on key documents from the 1970s and 1980s, given the general recognition that these have been the strongest efforts by the Canadian Catholic bishops to speak critically regarding the Canadian economy. These early statements take a stance that Baum refers to as an emerging Canadian critical social theory and as part of the larger “shift to the left” in Catholic social theory.<sup>9</sup>

### 1.2.1 “From Words to Action” (1976)

Of the many statements issued in the past several decades by the CCCB and the

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on the economy. For more on the Canadian bishops, see Kenneth Melchin, “National Conference of Catholic Bishops, Canada,” in *The New Dictionary of Catholic Social Thought*, ed. Judith Dwyer (Collegeville, MN: The Liturgical Press, 1994), 660-664.

<sup>7</sup>Leo XIII, *Rerum Novarum (On the Condition of Workers)*, 1891.

<sup>8</sup>Gunn and Lambton, *Calling Out the Prophetic Tradition*, 6.

<sup>9</sup>Baum, *Compassion and Solidarity: The Church for Others*, CBC Massey Lecture Series (Toronto: CBC Enterprises, 1987), 52-53.

Social Affairs Commission, a few stand out due to their message and their impact. Gregory Baum identifies the 1976 Labour Day message issued by the Social Affairs Commission, “From Words to Action,”<sup>10</sup> as “the best expression we have of a Canadian liberation theology.”<sup>11</sup> The context of the Canadian economy of the 1970s saw increasing unemployment and inflation, with the flight of major industries to foreign locations. The government response was to cut back on social programs to try to address inflation. However, the result was increased poverty and unemployment with fewer social supports. The bishops’ letter was a response to this situation.

The statement “From Words to Action” reflected a shift in the CCCB that had been taking place since Vatican II. The emphasis of this statement was placed on social causes of social and economic problems, rather than on personal or spiritual causes, according to Fr. Arthe Guimond, who was part of the CCCB’s pastoral team. “The traditional see-judge-act formula of Catholic Action evolved into the insistence on getting involved with oppressed or marginalized groups, analysing unjust structures, engaging in popular struggles for justice, and then reflecting theologically on these experiences.”<sup>12</sup>

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<sup>10</sup>CCCB Social Affairs Commission, “From Words to Action” (Ottawa: CCCB Publications, 1976).

<sup>11</sup>Baum, *Compassion and Solidarity*, 53.

<sup>12</sup>See Gunn and Lambton, *Calling Out the Prophetic Tradition*, 18-19, citing Bernard Daly, “Labour Day Statements of the Bishops of Canada from 1965 to the Present,” (unpublished paper for The Canadian Catholic Historical Association, Ottawa, June 9, 1982), 4.

In this statement, the bishops respond to the “signs of the times” by claiming that the commitment to social justice and solidarity with those oppressed allow for a deepened relationship with God and bring the gospel message to the world. The call for commitment and solidarity requires a shift in thought and action, extending the traditional Catholic Action model of “see-judge-act” to include a more thorough critical social analysis and praxis that focus on social structures of injustice. This call, for the bishops, is part of the obligation of Christians to bring about a new social order in accordance with the gospel message of justice.<sup>13</sup> This gospel message of justice comes close to identifying a key ethical principle highlighted in the later statement “Ethical Reflections on the Economic Crisis” (1983); that is, the “option for the poor.” The bishops state that the gospel calls for a conversion of attitude that leads to a change in social structures, and “requires all of us to see the reality of everyday life in a new light: from the perspective of Jesus Christ and his concern for the poor and oppressed.”<sup>14</sup>

For the bishops, the gospel message judges the current economic order as failing in its main function, which is to meet the needs of all people. Instead, wealth and resources are increasingly under the control of fewer people, with the economic order being geared to the demands of the profit motive. As a practical response to what they

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<sup>13</sup>CCCB Social Affairs Commission, “From Words to Action,” reproduced in Gregory Baum and Duncan Cameron, *Ethics and Economics: Canada’s Catholic Bishops on the Economic Crisis*, Appendix 2 (Toronto: James Lormier & Company, Publishers, 1984), 164.

<sup>14</sup>CCCB Social Affairs Commission, “From Words to Action,” 165.

see as injustice, the bishops' statement suggests a pastoral methodology that outlines its critical approach: "1) Understanding the Gospel message of justice; 2) modifying more affluent lifestyles; 3) hearing the victims of injustice in communities; 4) denouncing injustice in communities; 5) collaborating to change the causes of injustice; 6) assisting the poor and oppressed."<sup>15</sup> This methodology is to be applied to regional, national, and international contexts by all Catholics and Christians in an effort to respond to issues of justice.<sup>16</sup>

#### 1.2.2 "A Society to be Transformed" (1977)

In the year following the release of "From Words to Action," the bishops issued the statement "A Society to be Transformed" (1977). It continued the critique of the social and economic orders, beginning with signs of underdevelopment in Canada, such as increasing poverty, inflation, and unemployment, along with increased foreign control of economic resources. It also notes the environmental destruction that has been

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<sup>15</sup>This methodology is paraphrased in Gunn and Lambton, *Calling Out the Prophetic Tradition*, 24-25.

<sup>16</sup>The understanding of justice in the broader Catholic social teaching tradition has involved a distinction between different types of justice, such as distributive, commutative, and social justice. For a further discussion see Charles E. Curran, *Catholic Social Teaching 1891–Present: A Historical, Theological, and Ethical Analysis* (Washington, D.C.: Georgetown University Press, 2002). These distinctions are not specified in the bishops' statement.

a consequence of these economic trends.<sup>17</sup>

The gospel call to justice leads the bishops to an analysis of the capitalist system that recognizes some of the achievements of the rise of industry but warns of the serious systemic problems. These problems emerge from the values of capitalism, with its focus on the profit motive, the pursuit of self-interest, and competition rather than cooperation. These values have begun to influence not only economic relations, but also other social and cultural relations.

Further, the bishops challenge the secularism of the capitalist world-view, in its focus on achieving material comforts and its failure to call people to a broader vision of life.<sup>18</sup> For the bishops, Christian involvement in social issues recognizes God's action in

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<sup>17</sup>It is important to note that the early stewardship model of the bishops has been critiqued by ecologists and eco-feminist thinkers, in that it focusses on the respectful use of natural resources, but the main point of reference is still anthropocentric. Ecologists and eco-feminists call for a shift in consciousness that places humanity in the larger ecological and cosmological context. Mary Hobgood makes a similar critique of the 1986 U.S. Bishops' statement, *Economic Justice for All*, in claiming, "The bishops do not move beyond an understanding of ecology that considers only a responsible *use* of the environment. Their understanding of justice in this regard remains incomplete because it stops at requiring what is necessary for the well-being of *all* creation. From a feminist perspective, this is a problem that is indigenous to patriarchy." Mary Hobgood, *Catholic Social Teaching and Economic Theory: Paradigms in Conflict* (Philadelphia: Temple University Press, 1991), 224, note 7. For a discussion of the emergence of eco-theologies in the Canadian context, see Heather Eaton, "Critical Viewpoints on Ecotheologies in Canada," in *Intersecting Voices*, 246-265. A recent statement (2003) released by the Social Affairs Commission takes a much more "earth-centred" stance in its call for ecological justice. See "'You love all that exists ...all things are Yours, God, lover of life': A Pastoral Letter on the Christian Ecological Imperative," (Ottawa: CCCB Publications, 2003).

<sup>18</sup>CCCB, "A Society to Be Transformed," in Baum and Cameron, *Ethics and Economics*, Appendix 3, 175.

the world and the ongoing response by people to live out of gospel values. The bishops state, “People will see their rights and needs respected and satisfied to the extent that men and women relate to one another in terms of justice and equality, and work together to shape institutions and structures according to these values.”<sup>19</sup>

The bishops warn against the use of Marxism as an alternative, rejecting the Marxist ideology as atheistic and materialistic. Although the bishops do affirm the use of Marxist analysis in understanding structural injustice, they warn against the tendency in its analysis to identify social relationships in adversarial terms.<sup>20</sup> The bishops state that Catholics in the Canadian context will take various positions in trying to live out the gospel call for justice:

Some people will choose to continue reforming our present capitalist system in the light of the Gospel. Others will choose to participate in socialist movements, trying to reconcile them with the teachings of Jesus. And still others, rejecting these options, will become involved in searching for some alternative socio-economic order based on gospel principles.<sup>21</sup>

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<sup>19</sup>CCCB, “A Society to Be Transformed,” in Baum and Cameron, *Ethics and Economics*, Appendix 3, 172.

<sup>20</sup>Socialism in Canada has drawn on elements of Marxist analysis without adopting the Marxist ideology as a whole. The development of Canadian socialism is discussed in Baum, *Catholics and Canadian Socialism*.

<sup>21</sup>CCCB, “A Society to Be Transformed,” in Baum and Cameron, *Ethics and Economics*, Appendix 3, 170-179. Gregory Baum suggests that the bishops may have had a few different groups in mind in their reference to the three kinds of responses of Catholics to economic problems. The first may be the reform groups associated with Liberal, Conservative, and New Democratic political parties; the second may be the socialist groups associated with the New Democrats or other movements; and the third may be associated with “communitarian anarchist” movements, cooperative movements,

The bishops state that these differences will provoke tension and debate, but the important element is that people participate in the processes that will bring about justice and equality.

### 1.2.3 “To Establish a Kingdom of Justice” (1979)

Regional bishops also have issued statements regarding social and economic issues addressed to their local dioceses and parishes and to the broader Church. One such statement issued by the bishops of the Atlantic provinces received significant attention and reiterated the direction of the CCCB. The 1979 statement “To Establish a Kingdom of Justice” spoke specifically of social and economic issues of the Atlantic Canadian context.<sup>22</sup>

The Atlantic bishops continued the call of the Commission and the CCCB for the participation of people “in a process of critical analysis of our social, economic, and political systems.”<sup>23</sup> They identify specific problems facing Atlantic Canadians, notably the problems of the unjust and unequal distribution of goods and power, as well as

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or environmental movements that call for an alternative to capitalist and Marxist socialist approaches. See Baum, *Catholics and Canadian Socialism*, 214.

<sup>22</sup>Roman Catholic Bishops of the Atlantic Provinces, “To Establish a Kingdom of Justice,” reproduced in Williams, *Canadian Churches and Social Justice*, 77-87.

<sup>23</sup>Atlantic Bishops, “To Establish a Kingdom of Justice,” in Williams, *Canadian Churches and Social Justice*, 77.

regional disparity. The bishops indicate that they are structural problems of the larger economic system, one that benefits fewer people and gives increasing control to corporate interests. Labourers are excluded from ownership or decision-making power in the production process. Furthermore, this exclusion is felt in the emergence of value systems, as “control of the economy embraces and requires for its continuation the power to determine social values: the capacity to set goals for the system as a whole, and for each individual within it.”<sup>24</sup> The pursuit of profits, continual growth, and material possessions become the motivating goods of our social relations. The result is destructive not only to the poor, unemployed, and working poor, but to society as a whole.

The Atlantic bishops condemn the conditions that leave many people and regions in economic dependency. The Atlantic Canadian context of the 1970s saw increasing dependency on government support due to rising unemployment and the downturn of traditional industries, such as fisheries, agriculture, and mining. In light of this, the bishops also warn against the proposed solutions of increasing corporate control of resources and industries that would bring low-paying jobs without eliminating dependency. The bishops refer to the movements in the east coast that have worked for self-sufficiency and independence, such as the Antigonish movement, cooperative movements, credit unions, and labour unions. This legacy is still influential in the

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<sup>24</sup>Atlantic Bishops, “To Establish a Kingdom of Justice,” in Williams, *Canadian Churches and Social Justice*, 79.

Atlantic context, but it is increasingly challenged by the pressures of the national and international economic system and its social and political supports.

For the bishops, the role of the church is to promote a “liberating vision” of the dignity of life that will motivate work for changing sinful social structures. This liberating vision is hope-filled and faith-based but can only concretely be realized through the participation and solidarity of people. Although they do not offer concrete policy suggestions, the Atlantic bishops do take seriously the option for the poor, even prior to its central place in the 1983 statement “Ethical Reflections on the Economic Crisis,” by encouraging parish and diocesan groups to invite those most economically vulnerable and victimized to take part in the analysis, decision- and policy-making of these groups, allowing the voices of the marginalized to direct the actions of these groups.<sup>25</sup> Ultimately, this concern with participation and solidarity is for the benefit not only of the Atlantic region, but also of the broader national and international contexts.

#### 1.2.4 “Ethical Reflections on the Economic Crisis” (1983)

Perhaps the most well-known statement on the economy from the Canadian Catholic bishops was issued on New Year’s Day 1983, “Ethical Reflections on the Economic Crisis.”<sup>26</sup> One of the reasons for the strong impact of the statement was its

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<sup>25</sup>Atlantic Bishops, “To Establish a Kingdom of Justice,” in Williams, *Canadian Churches and Social Justice*, 86.

<sup>26</sup>CCCB Social Affairs Commission, “Ethical Reflections on the Economic Crisis” (Ottawa: CCCB Publications, 1983); reprinted in Sheridan, *Do Justice*, and in

appeal to those struggling in the midst of a recession and high unemployment.<sup>27</sup> Also, there were divided positions regarding the statement, even among some of the bishops. For instance, Cardinal Carter, the Archbishop of Toronto, voiced criticism of the statement and of its public release. Further, the statement was reprinted in the *Toronto Star* and was the subject of many editorials and commentaries nationally and internationally. This gave it further public attention.<sup>28</sup> Nonetheless, the statement provides a clear account of the bishops' call for social analysis and social justice nationally and internationally, with the guiding "principles" of the preferential option for the poor and the dignity of labour. These principles, or doctrines, ground an analysis of the economic problems in Canada and point the way for a practical response.<sup>29</sup>

In "Ethical Reflections" the bishops begin with the two gospel principles of the option for the poor and the dignity of work, principles highlighted by the Latin

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Williams, *Canadian Churches and Social Justice*, 88-98, and in Baum and Cameron, *Ethics and Economics*, 3-18.

<sup>27</sup>Gregory Baum, "The Shift in Catholic Social Teaching," in Baum and Cameron, *Ethics and Economics*, 20.

<sup>28</sup>Gunn and Lambton, *Calling Out the Prophetic Tradition*, 28-29.

<sup>29</sup>Throughout the thesis, I will use the term theological and ethical "principles" as guiding the economic concerns of Canadian Catholic social ethical voices. The bishops use both terms "principles" and "doctrines" in their statements, but they do not explicitly distinguish what is officially doctrinal from more general principles. In the final chapter, I will use the term "doctrines" in reference to the more precise meaning that Lonergan outlines within the framework of functional specialization.

American bishops and liberation theologians and by John Paul II's *Laborem Exercens*<sup>30</sup> respectively. Baum refers to the emergence of Catholic social theory in Canada as being strongly influenced by the "shift to the left" in the Catholic tradition, beginning with the Latin American liberation theologians and bishops (specifically the bishops' conferences at Medellin<sup>31</sup> and Puebla<sup>32</sup>) and moving to the papal encyclicals and bishops' synod at the end of the Second Vatican Council (specifically *Octogesima Adveniens*<sup>33</sup> and *Iustitia in Mundo*<sup>34</sup>).<sup>35</sup> "Ethical Reflections" strongly reflects this shift.

The option for the poor is a theological and ethical principle that refers to "solidarity with the oppressed and the willingness to look at one's own society from

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<sup>30</sup> See also John Paul II, *Laborem Exercens (On Human Work)*, 1981; reproduced in Michael Walsh and Brian Davies, eds., *Proclaiming Justice and Peace: Papal Documents from Rerum Novarum through Centessimus Annus* (Mystic, CT: Twenty-Third Publications, 1991), 351-391.

<sup>31</sup> Second General Conference of Latin American Bishops, *The Church in the Present-Day Transformation of Latin America in the Light of the Council*, Medellin, Colombia, 1968.

<sup>32</sup> Third General Conference of Latin American Bishops, *Message to the People of God*, Puebla, Mexico, 1979.

<sup>33</sup> Paul VI, *Octagesima Adveniens (A Call to Action)* 1971; reproduced in Michael Walsh and Brian Davies, eds., *Proclaiming Justice and Peace*, 245-267.

<sup>34</sup> World Synod of Bishops, *Iustitia in Mundo (Justice in the World)*, 1971; reproduced in Michael Walsh and Brian Davies, eds., *Proclaiming Justice and Peace*, 268-283.

<sup>35</sup> See Baum, "The Shift in Catholic Social Teaching," in Baum and Cameron, *Ethics and Economics*, 21-27.

their viewpoint.”<sup>36</sup> This meaning of “option for the poor” is identified by Baum as developing out of the Latin American Catholic Church and liberation theology. Its meaning requires that the Christian commitment to justice go beyond mere compassion for the poor to hearing the voices of those social victims and changing social structures that continue their victimization. Baum also identifies the meaning outlined at the Latin American Bishops Conference in Puebla, in 1979, where the option for the poor involved a hermeneutic dimension of interpreting society from the perspective of the poor and an activist dimension of public witness in solidarity with the struggle for justice.<sup>37</sup> Other scholars have identified the option for the poor as a theological doctrine that has been part of the Catholic social tradition prior to its emergence from liberation theology.<sup>38</sup> For the bishops, this is a theological and ethical stance that must guide social and economic action. The further guiding principle of the dignity of work is grounded in a theological view of the dignity of persons and the value of their creative efforts. These two guiding principles situate the Christian vision of the economic and social order to reflect and restore human dignity.

In light of these principles, the bishops judge the economic crisis of the time in

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<sup>36</sup>Baum, “Shift in Catholic Social Teaching,” in Baum and Cameron, *Ethics and Economics*, 41.

<sup>37</sup>See Baum, “Are We in a New Historical Situation? Must We Rethink What Justice and Solidarity Mean Today?” in *Stone Soup: Reflections on Economic Justice* (Toronto: Paulines Publishing, 1998), 21.

<sup>38</sup>For instance, see Donal Dorr, *Option for the Poor: One Hundred Years of Vatican Social Teaching* (Maryknoll, NY: Orbis, 1983).

Canada to reveal a “moral disorder” in Canadian society and in the broader capitalist system. This is most clearly revealed in the priority of capital over labour. The bishops state, “The present recession appears to be symptomatic of a much larger structural crisis in the international system of capitalism.”<sup>39</sup> They point to the movement of capital and technology as setting the context for poor labour conditions, capital flight, and unemployment, as well as lower environmental standards. The structural crisis is seen by the bishops as a moral failure that widens the gap between the rich and the poor, both nationally and internationally. The proposed solution to the economic crisis offered by government economic policy advisors focuses on private sector profits while lowering inflation, corporate tax rates, and social spending. The bishops consider this policy direction to be problematic.

For the bishops, a more adequate approach would require a shift in values so that the economic priority is not increasing profit for big business but meeting the basic needs of people. The bishops challenge the economic model of development that is “capital-intensive (using less and less human labour); energy-intensive (requiring more non-renewable energy sources); foreign-controlled (orienting development priorities to external interests); and export-oriented (providing resources or products for markets elsewhere rather than serving basic needs of people in this country).”<sup>40</sup> They seek an

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<sup>39</sup>CCCB Social Affairs Commission, “Ethical Reflections on the Economic Crisis,” in Williams, *Canadian Churches and Social Justice*, 91.

<sup>40</sup>CCCB Social Affairs Commission, “Ethical Reflections on the Economic Crisis,” in Williams, *Canadian Churches and Social Justice*, 95.

alternative vision that would promote the priority of labour, meeting basic needs, and the fair distribution of wealth regionally, by supporting an economic model that would provide “socially useful forms of production, labour-intensive industries, the use of appropriate forms of technology, self-reliant models of economic development, community ownership and control of industries, new forms of worker management and ownership, and greater use of the renewable energy sources in industrial production.”<sup>41</sup> This alternative vision would emerge through community building and public/parish discussions about economic justice.

#### 1.2.5 Recent Directions

Since the 1980s, the Social Affairs Commission of the CCCB has responded to the shifts in national and international economic issues. “Ethical Reflections” was its best known statement. The Social Affairs Commission followed up later in 1983 with “Ethical Choices and Political Challenges,” which reiterated the position of “Ethical Reflections,” but it also set out a more developed pastoral methodology.<sup>42</sup> This methodology had a significant impact on later statements and action and is considered

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<sup>41</sup>CCCB Social Affairs Commission, “Ethical Reflections on the Economic Crisis,” in Williams, *Canadian Churches and Social Justice*, 95-95.

<sup>42</sup>CCCB, “Ethical Choices and Political Challenges: Ethical Reflections on the Future of Canada’s Socio-Economic Order,” Brief to the Royal Commission on the Economic Union and Development Prospects for Canada, December 13, 1983, in Sheridan, *Do Justice*, No.4, 412-414.

“one of the lasting contributions of Canadian Catholic social teaching.”<sup>43</sup> The statement outlines five guidelines:

- a) being present with and listening to the experiences of the poor, the marginalized, the oppressed in our society;
- b) developing a critical analysis of the economic, political and social structures that cause human suffering;
- c) making judgements in the light of Gospel principles and the social teachings of the Church concerning social values and priorities;
- d) stimulating creative thought and action regarding alternative visions and models for social and economic development;
- e) acting in solidarity with popular groups in their struggles to transform economic, political and social structures that cause social and economic injustices.<sup>44</sup>

The Social Affairs Commission went through a transition from the mid-eighties to the mid-nineties; some of their statements reflect the transition. The bishops issued a statement in 1987 on the issue of free trade between Canada and the U.S. There was division on the issue in the public and among the bishops, with some supporting and some opposing free trade. The final statement did not offer a position but suggested tools for critical reflection.<sup>45</sup> Not long after this statement and during the negotiations of the North American Free Trade Agreement came the very public exit of the long-time director of the Commission, Tony Clarke, in 1994. Clarke later claimed that the bishops

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<sup>43</sup>Gunn and Lambton, *Calling Out the Prophetic Tradition*, 32. The authors state that “Ethical Choices” was prepared as a brief to be presented by the CCCB to the MacDonald Commission on Canada’s economy.

<sup>44</sup>Gunn and Lambton, *Calling Out the Prophetic Tradition*, 32.

<sup>45</sup>CCCB Social Affairs Commission, “Free Trade: At What Cost? Ethical Choices and Political Challenges” (Ottawa: CCCB Publications, 1987); discussed in Gunn and Lambton, *Calling Out the Prophetic Tradition*, 34-35.

had turned from their critical moral responsibilities.

In the 1990s up to recently, the Social Affairs Commission has again taken public positions on social, economic, and political issues. The bishops have issued letters challenging the government to be cautious regarding international agreements, such as the Multilateral Agreement on Investment (MAI). The MAI was defeated due to public concern about handing over significant legal power to transnational corporations.<sup>46</sup> The bishops were concerned that this agreement would give transnational corporations the power to nullify any Canadian law that would limit their potential revenue, even if those laws protect public health or the environment. The bishops have also issued warnings concerning other international trade agreements, namely the extension of the trade agreements of the Americas.<sup>47</sup> Their warnings are that the liberalization of trade may actually increase poverty, environmental degradation, and human rights violations. Finally, the bishops' concern for social and economic issues has extended to the discussion of the ecological crisis, making links between it and the

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<sup>46</sup>The Commission chair directed a letter to the trade minister in March of 1998 and the Commission offered a brief during the MAI hearings in November of 1998 to voice concern over the agreement. Gunn and Lambton, *Calling Out the Prophetic Tradition*, 39.

<sup>47</sup>See "Trading Away the Future: Concerns Arising From the Investor-State Mechanism of the North American Free Trade Agreement and Its Extension throughout the Americas," a background paper for the Conference on Humanizing the Global Economy, jointly sponsored by the CCCB, the Consejo Episcopal Latinoamericano (CELAM), and the U.S. Conference of Catholic Bishops (Ottawa: CCCB Publications, 2002).

structural problems of the international economic order.<sup>48</sup> The most recent statement issued by the Social Affairs Commission involves the protection of immigrants and refugees; it was issued on January 15, 2006, World Day for Migrants and Refugees.<sup>49</sup> The Canadian Catholic bishops have maintained the concern for economic issues that was present in the statements of the 1970s and 1980s, albeit with less of the bold energy, but with a broader focus on the international and ecological issues of recent times.

### **1.3 Gregory Baum's Critical Theological Approach to Social and Economic Problems**

#### **1.3.1 Baum's Critical Theological Overview**

Gregory Baum offers a second significant Canadian Catholic voice in discussions on the economy. Baum is one of the most influential contemporary Canadian Catholic theologians, and his work on economics provides a social theoretical analysis and reflection on domestic and international economic systems. Baum's analysis emerges from his critical theological method. His early reflections and analysis of the economy were largely situated in relation to the Canadian bishops' documents of the 1970s and 1980s. According to Baum, the bishops' statements of the 1970s and

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<sup>48</sup>See "'You love all that exists...all things are Yours, God, lover of life,' A Pastoral Letter on the Christian Ecological Imperative" from the Social Affairs Commission, CCCB Publications (Oct. 4, 2003).

<sup>49</sup>See "'We are aliens and transients before the Lord our God,' Pastoral Letter on Immigration and the Protection of Refugees," (Ottawa: Concacan Inc., 2006).

1980s were part of the emergence of an original Catholic social theory that began with the documents of the Latin American bishops and the “shift to the left” during Vatican II. The leftist influence has arisen through critical dialogue with Marxist socialist analysis. This development has emerged with varying degrees of caution from the Vatican against adopting the Marxist ideology.<sup>50</sup> The position of the Vatican on Marxism has shifted in this “leftist turn,” with consideration given to distinguishing between different Marxist approaches. The use of Marxism as an ideology or as a form of political organization have been strongly discouraged; however, there has been some support, particularly by Paul VI, for the use of Marxist social analysis. The openness to Marxist analysis became less apparent in the papacy of John Paul II than it was with Paul VI, particularly in its use by liberation theologians.

The Canadian Catholic bishops’ statements have been read by some as politically and economically reformist and by others as radical.<sup>51</sup> Baum interprets the bishops’ statements with a refined understanding of “reform.” He claims that “reformist reform” works for improving the functioning of a system without changing the structure. “System-transcending reform” works to change the structure by implementing systems

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<sup>50</sup>Baum, “The Shift in Catholic Social Teaching,” in Baum and Cameron, *Ethics and Economics*, 65.

<sup>51</sup>Baum, “The Shift in Catholic Social Teaching,” in Baum and Cameron, *Ethics and Economics*, 72. See also, Baum, “Are We In A New Historical Situation?” in *Stone Soup*, 22.

that are contrary to how the structure functions.<sup>52</sup> Baum uses the example of the cooperative movement as illustrating the second type, in that it raises critical consciousness and promotes a transformation of economic structures without claiming to be radical ideologically. Baum reads the bishops' vision as part of this "system-transcending reform." He argues that the bishops leave room for further debates between reformist and radical positions.<sup>53</sup>

For Baum, the bishops' statements between the mid-1970s and the early 1980s contributed to a coherent Canadian Catholic social theory developing at the time.<sup>54</sup> In response to the social and economic crises facing many Canadians, the bishops called on

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<sup>52</sup>Baum, "The Shift in Catholic Social Teaching," in Baum and Cameron, *Ethics and Economics*, 36.

<sup>53</sup>Baum, "The Shift in Catholic Social Teaching," in Baum and Cameron, *Ethics and Economics*, 73. Mary Hobgood has given an analysis of the Canadian bishops' statements, specifically "Ethical Reflections" and "Ethical Choices and Political Challenges" (Dec. 1983). She claims that the statements "advocated a radical transformation of capitalist economic structures in a way that closely resembles that found in the Latin American documents" (204). Hobgood claims that the Canadian bishops' statements go further than the U.S. bishops' statement "Economic Justice for All" in this regard. However, Hobgood reiterates the claim by Christine Gudorf regarding Catholic social teaching that there is a divergence between the use of radical social theory in applied theology/ social teaching from its use in the Church's traditional theological method, which prevents the Church hierarchy from applying a radical social analysis to its own structure. See Hobgood, *Catholic Social Teaching and Economic Theory*, 223, note 5; see also Christine E. Gudorf, *Catholic Social Teaching on Liberation Themes* (Washington, D.C.: University Press of America, 1981).

<sup>54</sup>Baum notes that the development of a Christian social theory in Canada was largely ecumenical and informed the bishops' statements, but that the bishops' statements reflected a shift that established a significant body of social thought in themselves. Baum, "The Shift in Catholic Social Teaching," in Baum and Cameron, *Ethics and Economics*, 28.

Christians to be guided by gospel principles in order to bring about a new social order. The theological principles of justice, equality, the common good, the option for the poor, and the dignity of work guided the bishops in their view of neo-liberal capitalism and Marxist socialism as inadequate social economic responses.

Baum notes that after the early 1980s, the bishops made fewer statements on economic justice. He indicates that part of a general trend in Canadian critical theologies in the later 1980s was a dampening of the socialist spirit of the 1970s and an effort to explore other important non-economic issues.<sup>55</sup> Baum situates the work of the Canadian bishops within the field of critical theologies involving Canadian theologians and faith groups concerned with social and economic problems. Baum distinguishes critical theology from the political theology that emerged from the Frankfurt school critical theory and the liberation theologies of Latin America.<sup>56</sup> For Baum, critical theology blends critical social theory with the liberation message of the gospel, which has been most clearly expressed in liberation theologies.<sup>57</sup>

For Baum, critical theology is a method of theological reflection based in an “emancipatory commitment” whose starting point is solidarity with the poor in light of

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<sup>55</sup>Baum, “From Solidarity to Resistance,” in *Intersecting Voices*, 57.

<sup>56</sup>Baum, “From Solidarity to Resistance,” in *Intersecting Voices*, 52. Baum refers to the German political theologians Johannes Baptist-Metz and Dorothee Soelle and Latin American liberation theology, without specifying later emerging liberation theologies, such as feminist mujerista, womanist North American, or eco-feminist liberation theologies.

<sup>57</sup>Baum, *Essays in Critical Theology* (Kansas City: Sheed and Ward, 1994), 4.

the liberating gospel message.<sup>58</sup> In the Canadian context, this method has taken form in the critical reflection and commitment of individual theologians and groups concerned with social and economic problems. The shift to “non-economic” issues by emerging critical theologies in Canada changed the tone of Canadian Catholic social theory. These issues included “women’s liberation, regional justice, Native self-determination, environmental protection, global peace, overcoming discrimination, and justice for the developing world.”<sup>59</sup> This shift meant that the Canadian Catholic social theory that responded to economic injustice began to open its field of vision regarding social and economic issues. Canadian Catholic social ethics gained a broader range of concerns essential to a vision and practice of emancipatory commitment.

### 1.3.2 Rise of Monetarism and Globalization

Baum’s work addresses the shift in context from the period of the recession of the 1980s to the rise of globalization in the 1990s to the present. Monetarist economic policies arose in the 1980s as a reaction to the apparent failure of Keynesian welfare economics in North America and Europe.<sup>60</sup> John Maynard Keynes’ demand-side economics emerged in the 1930s and 1940s, as North America and Europe were

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<sup>58</sup>Baum, “From Solidarity to Resistance,” in *Intersecting Voices*, 52-56.

<sup>59</sup>Baum, “From Solidarity to Resistance,” in *Intersecting Voices*, 59. These issues have been identified and analysed by a few generations of critical theologians, including feminist, eco-feminist, Native, and other Canadian contextual theologians.

<sup>60</sup>Baum, “Are We In A New Historical Situation?” in *Stone Soup*, 17-40.

attempting to recover from the Great Depression and were facing the reconstruction of Europe after World War II. During the post-war period up to the 1970s, Western economies largely followed demand-side policies that allowed government regulation of the market in order to correct what were considered the inherent flaws of the market mechanism. The hope was that the booms and busts of unrestrained capitalism could be controlled and smoothed out. Government invested in employment projects, social programs, taxation, and support for labour unions, as well as support for struggling industries.<sup>61</sup> These policies created a brief period of success, with North American and European standards of living rising overall.

However, by the 1980s, years of prosperity were waning. The phenomenon of stagflation<sup>62</sup> had emerged. Stagflation is the occurrence of high inflation, or price increases, with high unemployment, or stagnation. Governments were finding themselves in rising debt with unwieldy bureaucracies regulating industries and social programs. Major industries were on the decline. Some economists were advocating a return to *laissez-faire* economics, rejecting the demand-side, welfare state approach as having failed and supporting a supply-side approach that would recover capitalism from

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<sup>61</sup>Baum, "Are We In A New Historical Situation?" in *Stone Soup*, 24.

<sup>62</sup>For an interesting discussion of stagflation, see Jane Jacobs, *Cities and the Wealth of Nations: Principles of Economic Life* (Toronto: Random House, 1984), 9. Jacobs discusses the distinctions between various economic approaches, including classical capitalist and monetarist supply-side approaches (producer-oriented) and Keynesian and Marxist demand-side approaches (consumer- or labour-oriented), claiming that none of these theories can explain the recurring phenomenon of stagflation (ch. 1, 3-28).

government control or at least would promote supply-side policies. The supply-side approach advocated less government regulation of the market and more private and public finance for industry and business.

Monetarist policies became associated with the rise of neo-liberalism, a return of economic liberalism, or *laissez-faire* capitalism. This was associated with neo-conservatism, a new brand of political conservatism that supports economic liberalism.<sup>63</sup> Monetarist policies also promoted economic liberalization, which meant opening up trade between countries. Along with the rise of transnational corporations, monetarism set the stage for economic globalization, where capital has become increasingly mobile and corporations have become more powerful than nations to the extent that the “market forces” and corporate pressures are influencing national economic policies. Less public input in decision-making on these issues is leading to what Baum considers to be “a far-reaching decline of democracy.”<sup>64</sup>

### 1.3.3 Social Economy and Karl Polanyi

In the Canadian Catholic social ethics discourse, the social economy approach

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<sup>63</sup>Baum, “Are We In A New Historical Situation?” in *Stone Soup*, 27-28.

<sup>64</sup>See Baum, “Are We In A New Historical Situation?” in *Stone Soup*, 31. For a helpful analysis of the rise of globalization, see International Forum on Globalization, *Alternatives to Economic Globalization: A Better World is Possible* (San Francisco: Berrett-Koehler Publishers, Inc., 2002). A recent publication offers a reflection on globalization in light of Catholic social thought; see, John A. Coleman and William F. Ryan, eds., *Globalization and Catholic Social Thought: Present Crisis, Future Hope* (Ottawa, ON: Novalis and Maryknoll, NY: Orbis, 2005).

has emerged along with the neo-liberal capitalist, Keynesian social democratic, and Marxist socialist approaches to address social and economic problems in the Canadian context. Its most familiar forms are cooperatives and community economic development movements.<sup>65</sup> For Baum, although there are Christians who support the neo-liberal and Marxist socialist approaches, the key contemporary debate on the economic situation is between “social democrats” who strongly emphasize government intervention and “social cooperators” who are proponents of social economics.<sup>66</sup> According to Baum, the Keynesian social democratic approach is limited, in the context of globalization and the consequent weakened power of nations. In contrast, the social economic approach offers an important creative development in the face of globalization, particularly due to its focus on community development and democratic participation.<sup>67</sup>

The social economy approach to economic ethics has long been a part of the social and economic scene in Canada and elsewhere. Baum refers to the debate in the 1840s between Karl Marx and Pierre-Joseph Proudon, who was a socialist proponent, but who disagreed with allowing too much power to central governments. His

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<sup>65</sup>Canada’s social economy will be discussed in further detail in the next section.

<sup>66</sup>Baum, “Christians and the Economic Debate,” *The Ecumenist*, vol. 36, no. 1 (Jan.-Feb., 1999): 14. Baum refers to the “social democratic” approach as emphasizing political activity in relation to the economy and the “social cooperator” approach as emphasizing social activity but having economic and political concerns (15).

<sup>67</sup>Baum, “From Solidarity to Resistance,” in *Intersecting Voices*, 60-63. See also, Baum, “Are We In A New Historical Situation?” in *Stone Soup*, 37-38.

anarchism became a basis for localized productive and social organization.<sup>68</sup> This approach is emerging again in what Baum refers to as the “third sector” of society, “the people on the margin.”<sup>69</sup> Community development and community economic development (in Quebec referred to as “le mouvement communautaire” and “l’économie sociale”) are social economic movements that focus on the social and economic benefits of an economy, while allowing for a certain degree of self-sufficiency for the groups, communities, and regions involved.

Social economic movements have emerged in different contexts out of different visions of social and economic well-being. Some of these have had a specifically Catholic influence; I will discuss some illustrations of these in the next section. It is interesting to note, however, that some of the renewed discussions of the social economy in Canada have been influenced by the rising interest in the work of Karl Polanyi, an Austrian-Hungarian economic historian and anthropologist who moved to

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<sup>68</sup>See Baum, “From Solidarity to Resistance,” in *Intersecting Voices*, 62-63.

<sup>69</sup>Baum talks about three sectors of society as “1) the economic and political elite with decision-making power, 2) the people with a decent income as employees or workers in secure jobs or as owners of small businesses, and 3) the people in the margin—the unemployed, the underpaid workers, the part-time or irregular workers, and the old and the sick who are unable to work.” Baum, “From Solidarity to Resistance,” in *Intersecting Voices*, 60. He refers elsewhere to this three sector division as the “clover leaf” society. See Gregory Baum, “Beyond the Market: The Growth of the Informal Sector,” in *Outside the Market No Salvation? Concilium*, eds. Dietmar Mieth and Merciano Vidal (Maryknoll and London: Orbis Books and SCM Press, 1997), 27-32.

Canada later in his life.<sup>70</sup> Polanyi is best known for his book *The Great Transformation*, in which he critically analyses early industrial capitalism. He focusses on the destructive consequences resulting from the disruption of established social relations and cultural meaning structures.<sup>71</sup> The “disembedding” of economic activity from these social relations took place when factories replaced local producers and labourers were separated from their communities.

According to Baum, in his book on Polanyi’s ethics and economics, Polanyi’s main critique is directed at the idea of the self-regulating market. “What concerns Polanyi, and what he criticizes vigorously, is the self-regulating market system—a market economy unconstrained by society and operating simply according to its own law of supply and demand.”<sup>72</sup> Polanyi claims that the idea of the self-regulating market led to a “double-movement”: the owning and trading classes supported the market, on one hand, and other social groups responded to protect their communities, cultures, and land, on the other.<sup>73</sup> This counter-movement is what Polanyi called “the Great Transformation,”

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<sup>70</sup>Eric Shragge and Jean-Marc Fontan, *Social Economy: International Debates and Perspectives* (Montreal: Black Rose Books, 2000) was one book that emerged from a Polanyi conference in 1996. Also, Gregory Baum wrote a book on Polanyi’s contribution to ethics and economics, *Karl Polanyi on Ethics and Economics* (Montreal/Kingston: McGill-Queen’s University Press, 1996).

<sup>71</sup>Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, 1957, c1944).

<sup>72</sup>Baum, *Karl Polanyi on Ethics and Economics*, 5.

<sup>73</sup>Baum, *Karl Polanyi on Ethics and Economics*, 4-6.

and Baum argues that the social economy is a consequence of such a response.<sup>74</sup> For Polanyi, work must be “re-embedded” in social relations so that markets serve the good of the community, and not the other way around.<sup>75</sup> This is achieved by broadly-based participation in local social and economic development, with some local, regional, or national regulation to safeguard basic standards. Ultimately, as Baum states, “the energy expanded in material survival must be allowed to generate cooperation, friendship, and solidarity” that sustains communities.<sup>76</sup>

For Baum, Polanyi’s critique of the idea of the self-regulating market and his recognition of the need to ground economic activity in social relations contributed to his rejection of both liberal capitalist and Marxist notions of automatic progress.<sup>77</sup> Polanyi held that knowledge was grounded in daily ethical life, and he could not accept the separation of ethics from economic life or from social scientific thought.<sup>78</sup> He also could not accept the Marxist notion that the market determined the relations of the political superstructure, nor could he accept its materialism in restricting human motives to a kind of collective self-interest.<sup>79</sup> For Polanyi, human freedom is guided by a “civil

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<sup>74</sup>Baum, *Karl Polanyi on Ethics and Economics*, 10-12.

<sup>75</sup>Baum, “From Solidarity to Resistance,” in *Intersecting Voices*, 61.

<sup>76</sup>Baum, “From Solidarity to Resistance,” in *Intersecting Voices*, 62.

<sup>77</sup>Baum, *Karl Polanyi on Ethics and Economics*, 15.

<sup>78</sup>Baum, *Karl Polanyi on Ethics and Economics*, 22.

<sup>79</sup>Baum, *Karl Polanyi on Ethics and Economics*, 24.

conscience” that draws people together to meaningful social and cultural relations. Furthermore, Polanyi considers religion as playing a significant role in the development of the “civil conscience.”

Baum compares Polanyi’s thought with Catholic social teaching, claiming that both emphasize the role of human freedom in creating and transforming society. Human freedom, for both, is lived out communally so that the fullness of life is grounded in social relationships of cooperation and trust. This view of freedom rejects the notion of automatic progress and the competitiveness of liberal capitalism. Further, the Catholic notion of subsidiarity is consistent with Polanyi’s view of the need for economic decentralization, rather than bureaucratic control.<sup>80</sup> Such bureaucracy made Polanyi critical of Keynesian measures that centralized so much control of the economy in government.

For Baum, the work of Karl Polanyi, along with the emerging Canadian critical theologies and the work of the Canadian bishops, point Christians in a hopeful direction, even though the optimism of the leftist movements of the 1960s, 1970s, and 1980s has faded.<sup>81</sup> General participation with movements fostering cooperation and solidarity, supporting global organizations (such as the United Nations) to ensure the global public good, and supporting community development and community economic development at a local level are all possible Christian responses in the new context of globalization

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<sup>80</sup>Baum, *Karl Polanyi on Ethics and Economics*, 53.

<sup>81</sup>Baum, “Are We In A New Historical Situation?” in *Stone Soup*, 34-35.

that take seriously the gospel message of hope and justice.<sup>82</sup>

#### 1.4 The Vision of Moses Coady and the Antigonish Movement

Baum's analysis of the social economy focuses on the work of Karl Polanyi. However, there exists a wide range of approaches within the social economic movement. These include initiatives, programs, and methods that have attempted to address social and economic problems, such as non-profit, community-based, and cooperative enterprises. The term "social economy" has only recently come into common use in Canadian circles, replacing the former "third sector," as distinct from the public and private sectors.<sup>83</sup> The social economy includes some of the charity-based and social justice responses that Canadian Catholic groups and others have long supported. As well, the Canadian social economy has historical links to important social, economic, and political movements.<sup>84</sup> However, it is thought that most of

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<sup>82</sup>Baum, "Are We In A New Historical Situation?" in *Stone Soup*, 35-39. Some of the movements to which Baum refers as building cooperation and solidarity include the labour movement, the women's movement, the cooperative movement, and the ecological movement.

<sup>83</sup>For a helpful overview, see Jack Quarter, *Canada's Social Economy: Co-operatives, Non-profits, and Other Community Enterprises* (Toronto: James Lormier & Company, Publishers, 1992). For a further overview, which raises the issue of the relationship of the social economy with public and private sectors in surveying pragmatic/reformist and utopian/social change approaches, see Eric Shragge and Jean-Marc Fontan, *Social Economy*.

<sup>84</sup>The CCF, for instance, was obviously political, but its policy mandate was explicitly oriented to fostering social economic movements. The CCF was a form of democratic socialism interested in promoting publicly owned core industries, although it

Canada's social economic movements developed independently from political movements.<sup>85</sup> Other examples of social economic movements include various non-profit and charitable foundations, cooperative movements, and community economic development movements.

I am focussing this discussion on the movements that arose in the east coast Canadian context as part of the Catholic response to economic and social problems of that region since the 1920s. In particular, my interest is in the influence of Moses Coady and the Antigonish Movement. Moses Coady and the Antigonish Movement promoted a vision that was grounded in religious values and in a notion of the common good, but they also attempted to express these in distinct forms of social and economic organizations. The main forms of organization that I am discussing are cooperative enterprises, community economic development, and community development enterprises. My discussion of Coady and the Antigonish Movement will involve an historical overview of the movement and its influence in the concrete implementation of Catholic social thought. I will also discuss Coady's book, *Masters of Their Own Destiny*, as outlining the vision of the movement. Further, I will discuss the

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did not advocate the kind of centralized bureaucracies of the communist socialist governments of the day or of Keynesian social democracy, which is closer to the later NDP policies. There was significant support of the CCF by Christian and Catholic groups, particularly in Saskatchewan, although some of the Canadian bishops were suspicious of the movement, with a few outright condemning it. See Baum, *Catholics and Canadian Socialism*, 14-23, and Quarter, *Canada's Social Economy*, 4-5.

<sup>85</sup>Quarter, *Canada's Social Economy*, 4-5.

contemporary movements influenced by Coady, namely the Evangeline Region Cooperatives and New Dawn Enterprises. Finally, I will discuss the contemporary social economy in Canada as part of the Antigonish legacy.

#### 1.4.1 Coady and the Antigonish Movement--*Masters of Their Own Destiny*

The Antigonish Movement is one example of an effort to address social and economic problems out of a sense of the common good informed by the Catholic tradition. The Antigonish Movement was initiated by Rev. Moses Coady at St. Francis Xavier University in Antigonish, Nova Scotia.<sup>86</sup> Coady was strongly influenced by and worked closely with his cousin, Rev. James Tompkins, and both were raised in Cape Breton. The two had a vision of liberation for people in rural and fishing communities in the east coast of Canada. The Antigonish Movement was identified as an adult education movement that was concerned with providing the tools for people to be “masters of their destiny.”<sup>87</sup> Coady states, rather bluntly,

If the masses of the people have become, in a sense, slaves, it is because they have not taken the steps or expended the effort necessary to change society. The coal miner comes out of the pit, cleans up at the wash-house, and calls it a day. The fisherman thinks he has done enough when he lands his catch on the wharf. The farmer puts in a day of drudgery and

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<sup>86</sup>Anne Alexander, *The Antigonish Movement: Moses Coady and Adult Education Today* (Toronto: Thompson Educational Publishing, Inc., 1997), 15.

<sup>87</sup>Moses Coady’s book outlining the story and philosophy of the Antigonish Movement is called *Masters of Their Own Destiny: The Story of the Antigonish Movement of Adult Education Through Economic Cooperation* (New York: Harper & Brothers Publishers, 1939).

“knocks off” until tomorrow. This is their great mistake. There is no standing still, and if the people do not take the means to advance themselves, they will slip surely backward.<sup>88</sup>

It seems like a harsh message, but Coady’s concern was for the revitalization of these communities by the active participation of their members, not by external dependence. The Antigonish Movement was promoting and trying to help implement a vision of democratic life.

The St. Francis Xavier Extension Department was created in 1928, and its mandate was to promote adult education in the east coast region. Coady was the first director of the Extension Department. The diversity of the communities in the region, from farming to fishing-based, from Scottish to Irish to French-Acadian heritage, influenced the program of the movement so that it was expressed in distinctive ways.<sup>89</sup> In fact, the Antigonish Movement was very much an expression of the “historical, social, and economic context” of the region.<sup>90</sup> It was also an expression of the religious context. Coady and Tompkins, both Roman Catholic priests, were strongly influenced by the social teachings of the Roman Catholic Church, particularly Leo XIII’s *Rerum Novarum* and Pius XI’s *Quadragesimo Anno*.<sup>91</sup> Coady’s and Tompkins’ vision of social

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<sup>88</sup>Coady, *Masters of Their Own Destiny*, 17.

<sup>89</sup>Alexander, *The Antigonish Movement*, 44.

<sup>90</sup>Alexander, *The Antigonish Movement*, 44.

<sup>91</sup>See Leo XIII, *Rerum Novarum (On the Condition of Workers)*, 1891; reproduced in Michael Walsh and Brian Davies, eds., *Proclaiming Justice and Peace*,

reform took seriously the call for social justice<sup>92</sup> in working toward the common good.<sup>93</sup>

It is important to note that Coady and Tompkins were working in an era before Catholic social thought began to critique social economic structures and began to accept social theory and Marxist-influenced analysis. Coady's work and the Antigonish Movement were a unique, practical implementation of Catholic social thought for their context.

The Antigonish Movement is best known for its program of adult education and its implementation of cooperative organizations in the east coast region. Tompkins, Coady, and the Extension team were influenced by adult education and cooperative movements in Europe. The Danish Folkschule inspired the creation of the People's School, whereby the Extension Department offered education to people of the greater community to address their needs.<sup>94</sup> Cooperatives and credit unions were becoming

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15-40; and Pius XI, *Quadragesimo Anno (Forty Years After)*, 1931; reproduced in Michael Walsh and Brian Davies, eds., *Proclaiming Justice and Peace*, 41-80. Also see Alexander, *The Antigonish Movement*, 48. Alexander notes that the Vatican sent a letter to St. Francis Xavier University in 1938 indicating Pius XI's approval of the Antigonish Movement.

<sup>92</sup>The term "social justice" was first used in official Catholic Social Teaching by Pius XI in *Quadragesimo Anno*, emphasizing the participation of all in the promotion of the common good and sharing in wealth. For a more in-depth discussion of Catholic Social Teaching, see Charles E. Curran, *Catholic Social Teaching 1891–Present*.

<sup>93</sup>Alexander refers to Gregory Baum's definition of the common good as the "values, structures and institutions that provided for the well-being of the people as a whole, including their economic, social, cultural and religious life." Alexander, *The Antigonish Movement*, 217, note 73, quoting Gregory Baum, *Catholics and Canadian Socialism*, 76.

<sup>94</sup>Alexander, *The Antigonish Movement*, 68.

popular in other parts of Canada in the early 1900s, such as in the Prairies and Quebec, and this popularity fostered interest for the emergence of similar organizations in the east. These kinds of organizations became central to the Antigonish Movement's program of liberation through education and democratic economic control.

Different types of educational efforts were initiated in the program of the Antigonish Movement. The two main educational vehicles were study groups and mass meetings.<sup>95</sup> These groups arose from the recognition that the people whom the Extension Department was trying to serve could not come to the Department: it would have to go to the people. The process would begin with mass meetings to identify the needs of the community. Study groups would emerge from these meetings as the location for various lessons. The study groups often took place in a member's home and initially involved the process of figuring out the educational needs of the members. Often, these study groups would result in the development of cooperatives or credit unions, in an effort at a collective solution to the economic problems of the community.<sup>96</sup>

While the focus of the Antigonish Movement was the education and empowerment of the community members, it fostered and relied upon networks of relationships between communities and agencies in order to operate and promote its

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<sup>95</sup>Alexander, *The Antigonish Movement*, 79; Coady, *Masters of Their Own Destiny*, 30.

<sup>96</sup>Alexander, *The Antigonish Movement*, 80.

vision.<sup>97</sup> Community study groups were able to link up with other groups to inform each other of their concerns. Fishing and farming associations were involved in the promotion of the movement's vision. The federal Department of Fisheries and Oceans and the Nova Scotia provincial Department of Agriculture provided grants to and shared technical expertise with the Extension Department to support its programs. The Movement also had an ongoing relationship with the Carnegie Corporation of New York, which provided grants for various cooperative enterprises.<sup>98</sup>

The Antigonish Movement's program of adult education, propelled by a vision of building communities where human dignity could flourish, was concerned with education in a broad sense, but specifically focussed on economic cooperation as a means of implementing its vision. Cooperative movements and credit unions became the means of economic cooperation.

For Coady, the rise of industrialization, *laissez-faire* capitalism, and free competition had led to handing control over people's lives to those in charge of businesses and industries. Coady was particularly critical of merchants whom he considered to be "rugged individualists" out for themselves. He likened the 150 years of *laissez-faire* capitalism to building a 150-foot smoke stack on shoddy foundations.<sup>99</sup> The higher it gets, the more obvious its flaws, until it threatens those below. The response is

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<sup>97</sup>Alexander, *The Antigonish Movement*, 83.

<sup>98</sup>Alexander, *The Antigonish Movement*, 84.

<sup>99</sup>Coady, *Masters of Their Own Destiny*, 20-21.

to prop it up with the “guy wires” of “various handouts and pensions, unemployment insurance, and the rusty old wire of the dole.”<sup>100</sup> Coady warned of the loss of dignity and of the “poverty of thought and inspiration” resulting from the economic system in which people would become more like machines than persons. Some of the force of Coady’s rhetoric comes across in his discussion of this loss of dignity.

In these days of division of labour, one man’s job may be to give a half-turn to Nut No. 960 in an automobile factory. A few days of this would drive many of us to distraction. Could any man do it for months and years without becoming ‘dead to rapture and despair’? – ‘a slave of the wheel of labour? With the need for efficiency, it may not be possible to change his task and make it one that requires more of the man and less of the machine, but if the people will raise their own economic institutions, they will be saved for the destiny for which their God-given intellects endowed them.<sup>101</sup>

In discussing the vision and program of the Antigonish Movement, Coady refers to different kinds of cooperatives and credit unions that might suit different contexts. Coady emphasized the priority of consumer cooperatives, which allow the consumer member to have control over his/her options in how and where money is spent and invested and which provide a return in profits to the consumer. The cooperative movement, following the lead of the Rochdale England cooperatives,<sup>102</sup> was not to allow

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<sup>100</sup>Coady, *Masters of Their Own Destiny*, 21. This statement also illustrates Coady’s critical view of demand-side solutions.

<sup>101</sup>Coady, *Masters of Their Own Destiny*, 23.

<sup>102</sup>The Rochdale England cooperatives began in 1844 with a group of weavers and led to the establishment of the British Cooperative Movement. The guiding principles of the movement were: “1) One member–one vote; 2) No discrimination on basis of race, nationality, politics, or religion; 3) Open membership; 4) Profits are

the practice of selling beyond the cost price and cost of merchandising in order to make an excessive profit. Whatever is earned beyond the cost price goes back to the individual members of the cooperative, and so ultimately goes back to the consumer.<sup>103</sup> Consumer cooperatives took the form of retail stores with consumer-membership control.

The development of consumer cooperatives led the way for producer cooperatives, such as fish plants and lumber mills, which would work with the consumer cooperatives in order to provide products for retail. The networks of producer and consumer cooperatives allowed producers to sell at a competitive price, while bypassing middle merchants, and allowed member consumers to pay a lower retail price. This presented a challenge to middle merchants and those businesses who were monopolizing industries in the region.<sup>104</sup>

Establishing credit unions was also part of the program of the Antigonish Movement, and it became important to the functioning of cooperative networks in providing financing for cooperative projects. The financial benefits of the credit unions, for Coady, were significant, given that people who could not get access to loans or could not adequately save their money, due to excessive interest charges or conditions, were now able to do so. However, aside from the economic advantage, Coady identified the

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returned to members on basis of volume of business done with cooperative; 5) Limited interest on capital; 6) Cash trading; 7) Continuous education.” Alexander, *The Antigonish Movement*, 86-87.

<sup>103</sup>Coady, *Masters of Their Own Destiny*, 73-74.

<sup>104</sup>Alexander, *The Antigonish Movement*, 87.

“moral significance” of the credit unions in their fostering of honesty in financial relations and community support.<sup>105</sup> The membership participation in financing decisions and access to loans and services allowed for a sense of financial responsibility that reinforced the broader collaboration of community members and cooperatives. This served to foster the character-building and community-building that were central to the vision of the Antigonish Movement.

Women played an active role in the Antigonish Movement. At a time when women’s roles were understood in a traditional way, as restricted to the household in supporting their husbands and raising children, the Antigonish Movement allowed women to participate more fully in community development. Women participated in and organized study clubs. There they learned about the economic role of homemakers and broader economic issues of concern. Women involved in the Antigonish Movement also organized craft guilds that could operate in collaboration with cooperatives, broadening women’s involvement in the community.<sup>106</sup> Women were also significantly involved in the operations of the Extension Department. Recognition of the key roles that these women played in the success of the movement has been late coming, but some women who worked in the Extension Department and as field-workers have told their stories of

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<sup>105</sup>Coady, *Masters of Their Own Destiny*, 83.

<sup>106</sup>Alexander, *The Antigonish Movement*, 93.

the experience.<sup>107</sup> Although the Antigonish Movement did operate in a patriarchal context and reinforced patriarchy in its structure of male-centred leadership, it was remarkable in the level of participation and influence that women achieved.<sup>108</sup>

The Antigonish Movement was strongly influenced by the Catholic tradition, particularly the Catholic social teaching tradition, although it has been claimed that the movement went further than Catholic social teaching, particularly in Coady's denunciation of capitalism.<sup>109</sup> Baum supports the notion that the Antigonish Movement was radical, or system-transcending; he is hesitant about the movement as being considered a "middle way" between communism and capitalism.<sup>110</sup> For Baum, the

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<sup>107</sup>One such example is Ida Delaney, *By Their Own Hands: A Fieldworker's Account of the Antigonish Movement* (Hantsport, N.S.: Lancelot Press, 1985). Other women have written of the Antigonish Movement or have lectured on their involvement. These include Sister Irene Doyle, who gave a lecture as recently as October 1995 at St. Francis Xavier and wrote pamphlets such as *What Can The Women Do?*; Kay Thompson Desjardins, who wrote for *The Extension Bulletin* and became editor of *The Maritime Cooperator*; Sister Marie Michael, who wrote the women's section of *The Extension Bulletin*; and Zita O'Hearn Cameron, who wrote for the Antigonish newspaper *The Casket*. See Alexander, *The Antigonish Movement*, 92-94 and 147-154.

<sup>108</sup>Alexander notes that Coady and Tompkins, to some extent, encouraged the participation of women in study groups, the integration of male and female study groups, and the leadership of women in the educational and cooperative programs. This, unfortunately, was not necessarily encouraged by other male directors. Alexander, *The Antigonish Movement*, 154.

<sup>109</sup>Alexander, *The Antigonish Movement*, 173. Alexander states that Coady had a similar criticism of communism as stated by popes Leo XIII and Pius XI, but his criticism of capitalism was much more severe.

<sup>110</sup>Alexander, *The Antigonish Movement*, 102.

Antigonish Movement was radical, in that it offered an alternative vision of social and economic relationships. It promoted the participation of all people in these relationships. In doing so, it resisted the trends of capitalist individualism and materialism, as well as the collectivist materialism of communist socialism. However, Baum considered Coady's vision as lacking a broader social analysis, beyond the critical view of the capitalism of the region.<sup>111</sup> For Baum, Coady focussed too much on the actions of the merchants without considering how the broader capitalist system placed demands on the merchants themselves.

Baum indicates that Coady and the Antigonish Movement did not support the Cooperative Commonwealth Federation (CCF). The reason was that the Antigonish Movement claimed to be politically neutral, in order to attempt to be open to the diverse political backgrounds of those in the region. However, there was financial pressure for this neutrality, which in some ways contradicts the movement's vision. Government funding and other grants were at stake. Also, there was an effort to distinguish the movement from socialism, for which there was a general suspicion in mainstream financial circles. This suspicion of the CCF and socialism was voiced by some of the Canadian Catholic Bishops, some of whom were thought to have discouraged support

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<sup>111</sup>Baum, *Catholics and Canadian Socialism*, 202. Baum's critical view of Coady's lack of broader social analysis must be qualified by Coady's clear criticisms of the capitalist system as "intrinsically bad" and "so hard, cruel, and relentless that it sins against nearly every ethical principle." Coady, *Masters of Their Own Destiny*, 143, 144. Baum did, however, consider the Antigonish Movement as an example of "system-transcending reform" (*Catholics and Canadian Socialism*, 201).

for the CCF.<sup>112</sup>

Along with political neutrality, the Antigonish movement claimed religious neutrality. However, this did not mean that it was non-religious. Coady's claim of religious neutrality was to encourage the full participation of Catholics and non-Catholics in the region, although it was still seen as a Catholic movement.<sup>113</sup> In fact, Coady claimed an essential role of religious values in developing the cooperative movement, in that religious values would sustain the higher vision of the social and economic relations so that they go beyond mere material goals.<sup>114</sup> As well, religion needs cooperative social and economic relations as an "aid to salvation."<sup>115</sup> Coady claimed that the economic question is the key religious question.

For if it is not solved, freedom, culture, and religion may easily be seriously endangered. The economic question is a religious question, moreover, because the relationships of man to man are involved, the relation of employer and employee, of consumer, producer, and

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<sup>112</sup>Baum, *Catholics and Canadian Socialism*, 97. Some Catholics considered the bishops' position on the CCF to be open to a certain level of support, while other read the bishops as outright condemning the CCF and discouraging Catholics from voting for the party.

<sup>113</sup>Surprisingly, for his context, Coady refers to other world religions in his discussion of religious openness. "We cannot speak of Catholic cooperation or Protestant cooperation, of Buddhist, Mohammedan, Shinto, of Hebrew economics any more than we can speak of Quaker chemistry or Mormon mathematics." Coady, *Masters of Their Own Destiny*, 141.

<sup>114</sup>Coady, *Masters of Their Own Destiny*, 143. Coady states, "The great accomplishment of the new age will be to restore the spiritual by using the material as it ought to be used, a means to a higher end."

<sup>115</sup>Coady, *Masters of Their Own Destiny*, 143.

distributor, of individuals and the state. It is more than a question of supply and demand, more than a matter of food, clothing, and shelter. It is basic to the life of man. Economic action is intimately linked up with spiritual activities. It influences all man's actions, and when his economic life is deficient there is grave danger of his spiritual life being likewise defective. Poverty is not always holy. It may frequently be a proximate occasion of sin.<sup>116</sup>

For Coady, the fostering of cooperative social and economic relations sets the conditions so that sins of social disruption, materialism, and dependency are made more remote.

Although there has been criticism that the Antigonish Movement did not go far enough in its social analysis,<sup>117</sup> Coady's and the movement's vision of liberation through education and cooperative participation in social and economic relations remains significant. The Antigonish Movement and the Extension Department have long ended, but the vision remains in the work of the Coady International Institute at St. Francis Xavier University. The Coady Institute was opened in 1959, the year Coady died. It has since been an important educator in community economic development, adult education, and the development of cooperatives for its mostly international

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<sup>116</sup>Coady, *Masters of Their Own Destiny*, 144-145.

<sup>117</sup>Along with Baum, there have been Marxist sociologists who have critiqued the Antigonish Movement's lack of social analysis. Marxist critics claimed that the movement did not have an adequate class analysis and did not have the tools to seriously challenge the capitalist structure. For a critical Marxist-based analysis of the movement, see R. J. Sacouman, "Underdevelopment and the Structural Origins of the Antigonish Movement Co-operatives in Eastern Nova Scotia," in *Underdevelopment and Social Movements in Atlantic Canada*, eds. Robert J. Brym and R. James Sacouman (Toronto: New Hogtown Press, 1979); Gary Webster, "Tignish and Antigonish: A Critique of the Antigonish Movement as a Cadre for Cooperativism," *The Abegweit Review* 2, no. 1 (1975): 94-104, cited in Alexander, *The Antigonish Movement*, 104-106.

students, many of whom will take their training back to their home countries. There is some concern that the current focus of the Coady Institute has been directed away from the local region. It is true that the Institute's work is focussed on international development. It seems, however, that the vision of the early movement is still alive.<sup>118</sup>

#### 1.4.2 Contemporary Movements Influenced by Coady and the Antigonish Movement

##### 1.4.2.1 The Evangeline Region Cooperatives

Certainly, the cooperative legacy is still felt in the Canadian east coast. Cooperatives and credit unions still operate, and community economic development has become vital to the region. One of the most striking examples of a cooperative enterprise that was influenced by the Antigonish Movement and still is vital in the present day is the Evangeline region cooperatives in Prince Edward Island. The Evangeline cooperatives support several communities of about 2500 people in a twenty-square-kilometre area of western PEI. The network of sixteen cooperatives makes the Evangeline region, per capita, "the uncontested cooperative capital of North America."<sup>119</sup>

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<sup>118</sup>There is still some contact between the Coady Institute and some of the fishing associations in the region, such as the Guysborough County Fishing Association, which has collaborated with the Coady Institute in some of its educational sessions.

<sup>119</sup>Paul Wilkinson and Jack Quarter, *Building a Community-Controlled Economy: The Evangeline Co-operative Experience* (Toronto: University of Toronto Press, 1996), 3. See also, Murray MacAdam, "Community Economic Development in Canada: Band-aid or Breakthrough?" in *From Corporate Greed to Common Good: Canadian Churches and Community Economic Development*, ed. Murray MacAdam

The Evangeline cooperative network involves a diverse range of cooperative organizations, including stores, credit unions, a nursing home, and a cable television station. The Evangeline cooperative network is unique in that its development arose not only out of an economic need, but also out of an effort to preserve the Acadian culture of the region.<sup>120</sup> With its extensive network of collaboration and the participation of the majority of the residents of the region, the Evangeline cooperatives have managed to achieve an impressive level of economic and cultural development. In fact, the cooperatives have a combined membership of 5,811 people (several people being members of more than one cooperative), employ 352 people full-time (1990 statistics, including seasonal full-time), and pay almost \$2 million in wages.<sup>121</sup>

The Evangeline cooperatives were influenced in their origins by the emergence of cooperatives in the east coast region in the 1920s and 1930s. The Antigonish Movement and Moses Coady were given a mandate by the federal government to organize fishers in the east coast region, which included the Evangeline region. Coady helped with the initiation of fishing associations in the region and introduced the mass meetings and study groups that were key to initiating cooperative organizations. The region had already been accustomed to some levels of organization through agricultural clubs and earlier efforts to establish cooperatives, but the formal structure of the

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(Ottawa: Novalis, 1998), 13.

<sup>120</sup>Wilkinson and Quarter, *Building a Community-Controlled Economy*, 4.

<sup>121</sup>Wilkinson and Quarter, *Building a Community-Controlled Economy*, 3-4.

Antigonish approach helped to solidify the cooperatives as viable community efforts.<sup>122</sup>

Although some communities influenced by the Antigonish Movement had lost their momentum to further create and integrate cooperatives by the 1950s, the Evangeline region has actually developed most of its cooperatives since 1977.<sup>123</sup> The newer cooperatives have involved different types, including worker cooperatives, intended for job creation; service cooperatives, intended to provide a needed service in the region (such as health services and funeral homes); and educational or cultural service cooperatives, intended to promote and advance the French-Acadian culture (such as a French-language cable network and the Acadian Pioneer Village).

There have been several factors in the success of the Evangeline region cooperatives.<sup>124</sup> The Evangeline region is made up of close-knit communities, with extended family connections, which have a largely French-Acadian, Roman Catholic population. The struggle to survive economically and culturally has contributed to the sense of community support. The high levels of participation in cooperative

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<sup>122</sup>Wilkinson and Quarter, *Building a Community-Controlled Economy*, 22.

<sup>123</sup>Wilkinson and Quarter, *Building a Community-Controlled Economy*, 29.

<sup>124</sup>Wilkinson and Quarter apply a theoretical framework of community economic development to their analysis of the Evangeline cooperatives, highlighting four case studies (Chez Nous, a seniors' home; Community Communications Cooperative, a cable company; Prince Edward Island Potato Chip Cooperative; La Coopérative Les P'Tits Acadiens, a women's worker cooperative making children's clothing). The framework outlines three essential elements of community economic development: community consciousness, empowering activities, and supportive structures. The case studies are viewed in light of these elements. Wilkinson and Quarter, *Building a Community-Controlled Economy*, 119.

organizations has been largely motivated by a sense of concern for the well-being of these communities, grounded in a sense of common identity and friendships. The region has been able to mobilize support for and participation in different enterprises, with an aim to maintain a strong level of local control over the region's social and economic organizations.

The Evangeline cooperative network has been seen as an example of “socialized entrepreneurship” in the cooperative movement, in a way similar to that of the Mondragon model in the Basque region of Spain, although on a much smaller scale.<sup>125</sup> Although it is unique given its historical and cultural context, the Evangeline cooperative network serves as an illustration of how communities can gain a level of social and economic self-reliance, while still being integrally connected to the broader Atlantic regional networks and even national and international networks.<sup>126</sup>

#### 1.4.2.2 New Dawn Enterprises

Another important example of community development in the Atlantic region

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<sup>125</sup>Jack Quarter, *Canada's Social Economy*, 104. The Mondragon Cooperative Corporation is the largest of its kind in the world. It includes financial and research institutions, medium-sized corporations, and worker cooperatives. Mondragon employs over 30,000 workers and makes over \$6 billion in sales annually. See Greg McLeod, *From Mondragon to America: Experiments in Community Economic Development* (Sydney, N.S.: University College of Cape Breton Press, 1997).

<sup>126</sup>The Evangeline region has been involved with the development of cooperatives in Haiti as an effort at social solidarity. Wilkinson and Quarter, *Building a Community-Controlled Economy*, 151.

has been the New Dawn Enterprises community development corporation.<sup>127</sup> New Dawn was largely influenced by the spirit of the Antigonish Movement, and it is considered to be the first community development corporation in Canada, established in 1973 and formally incorporated in 1976.<sup>128</sup> New Dawn Enterprises manages a number of subsidiary corporations that are community-based, including a housing development corporation, a construction company, and a home care and nursing service. It also works with a finance partner, BCA (Banking Community Assets) Holdings, to provide financial support for new projects. The New Dawn Enterprises employs up to 110 people and has assets of \$15 million.<sup>129</sup>

One of the founding members of New Dawn, Fr. Greg McLeod, considers New Dawn to be recovering the vision of the Antigonish Movement of working for social and economic well-being by local self-reliance. Although it is incorporated as a business corporation, New Dawn and its subsidiaries run with the cooperative philosophy of “one person, one vote” and with profits invested in community initiatives.<sup>130</sup> With its

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<sup>127</sup>Community development corporations are non-profit corporations that assist communities with social and economic development. Quarter, *Canada's Social Economy*, 95.

<sup>128</sup>Quarter, *Canada's Social Economy*, 96; Greg McLeod, *New Age Business: Community Corporations That Work* (Ottawa: Canadian Council on Social Development, 1986), 20.

<sup>129</sup>John Bird, “New Dawn: The Cape Breton Giant,” in *From Corporate Greed to Common Good*, 46.

<sup>130</sup>John Bird, “New Dawn: The Cape Breton Giant,” in *From Corporate Greed to Common Good*, 50.

financing arm, BCA Holdings, New Dawn is able to provide support for a number of different kinds of community projects. Preference is given to support cooperative projects, but non-cooperative projects may also be supported. This means that funding is also open to private community businesses. As McLeod states, “The mere fact that a community corporation like New Dawn has survived for over twenty-five years should indicate that serious business can be undertaken in an efficient manner even though it is for community good rather than the financial profit of the board, a few individuals or any one special interest group.”<sup>131</sup> New Dawn is considered by the Economic Council of Canada to be one of Canada’s most successful community development corporations.<sup>132</sup>

#### 1.4.2.3 Contemporary Canadian Social Economy

The legacy of the Antigonish Movement and Coady’s work, along with other early Canadian social economic efforts, have created a strong network of social economic movements in contemporary Canadian society. According to Jack Quarter, “By the end of the 1980’s there were 6,916 co-operative corporations in Canada with a total membership exceeding 21 million people. Twelve million Canadians belonged to at least one co-operative corporation, and the assets of the movement were \$105.9 billion.”<sup>133</sup> Canadian cooperatives range in size from small, local organizations to some

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<sup>131</sup>McLeod, *From Mondragon to America*, 114.

<sup>132</sup>Quarter, *Canada’s Social Economy*, 97.

<sup>133</sup>Quarter, *Canada’s Social Economy*, 15.

of the largest corporations in Canada, such as some agri-food cooperatives.<sup>134</sup> They operate on a “one member, one vote” principle, where membership allows for a voice in decision-making, although boards of directors and management tend to do the bulk of the decision-making. Their purpose is to perform a social and economic function in a community or region, with any profits being directed to the operations of the cooperative or divided among members according to their use of the service provided.

Canadian cooperatives operate as part of a regional, national, and international movement.<sup>135</sup> These levels of organization serve as networks of support that allow for the sharing of resources and knowledge. They also help to organize the different kinds of cooperative enterprises, which include producer, consumer, housing, and financial

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<sup>134</sup>These include the Saskatchewan Wheat Pool, the Federated Co-operatives, Coopérative fédérée de Québec, and the Alberta Wheat Pool. Quarter, *Canada's Social Economy*, 15.

<sup>135</sup>The International Cooperative Alliance represents cooperatives throughout the world and issues principles to guide cooperative operations. They include: “1. voluntary and open membership; 2. democratic member control (that is, one member, one vote); 3. member economic participation (members are responsible for financing their co-operative and are also the primary beneficiaries); 4. autonomy and independence (co-operatives are autonomous self-help organizations and must not jeopardize their independence through agreements with government or external lenders); 5. education, training, and information (co-operatives have an obligation to educate their members and employees about their organization, and to inform the general public about the benefits of co-operation); 6. co-operation among co-operatives (the obligation of co-operatives to work together both to serve their members and to strengthen the co-operative movement); and 7. concern for community (the obligation of co-operatives to work for sustainable development in their communities).” See Wilkinson and Quarter, *Building a Community Controlled Economy*, 12-13.

cooperatives, to name a few.<sup>136</sup>

The cooperative movement may be considered as part of the broader community economic development movement in Canada. Some hold, however, that cooperatives are the *oldest* form of community economic development.<sup>137</sup> Although community economic development is concerned with local social and economic development, it has a broader approach to community-based initiatives, which may include cooperatives, but may also support private enterprises with a community orientation, such as providing employment for marginalized people or supporting local craftspeople in a particular region.

Community development corporations, like New Dawn, are another type of community economic development enterprise whereby non-profit corporations assist with local social and economic development of a local region or community through local entrepreneurship.<sup>138</sup> This too may involve supporting cooperative or private,

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<sup>136</sup>Quarter outlines eight models of cooperatives. They are 1) marketing cooperatives, which are mainly producer and service cooperatives; 2) consumer cooperatives, in which the consumers of the service are the members; 3) second- and third- tier cooperatives, in which the members are other cooperatives or groups of cooperatives; 4) cooperatively held subsidiaries, where the subsidiaries are not cooperatives; 5) worker cooperatives, in which the members are the workers; 6) multi-stakeholder cooperative, in which there are different membership groups; 7) multi-stakeholder cooperatives applied to Crown corporations; and 8) worker-shareholder cooperatives, in which multi-stakeholder principles are applied to the private sector. See Quarter, *Canada's Social Economy*, 39-40.

<sup>137</sup>Wilkinson and Quarter, *Building a Community Controlled Economy*, 12.

<sup>138</sup>Quarter, *Canada's Social Economy*, 95.

community-oriented small businesses. Community development corporations are a distinct kind of community economic development, in that the corporation oversees the program for local development, either directly or through subsidiaries. These cooperative and community economic development movements have emerged out of regional needs and in response to the economic and social marginalization of a given population. Their resurgence in the contemporary Canadian context indicates that the concerns and vision of Coady and the Antigonish Movement remain relevant today.

### **1.5 Ethical and Theological Approaches to Profit: Highlighting Strengths and Limits**

The approaches discussed above as Canadian Catholic responses to social and economic issues may be identified as different kinds of ethical and theological approaches, and they are part of broader conversations in Catholic social ethics.<sup>139</sup>

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<sup>139</sup>Various conversations in contemporary Catholic social ethics (mainly North American) are identified in a recent article in *Theological Studies*. See, Mary Elsbernd, O.S.F., "Social Ethics," *Theological Studies* 66 (2005): 136-158. In the areas of economic ethics and the common good, they include: David Hollenbach, *The Common Good and Christian Ethics*, *New Studies in Christian Ethics* 22 (New York: Cambridge University, 2002); Lisa Sowle Cahill, "Toward Global Ethics," *Theological Studies* 63 (2002): 324-344; Thomas Ogletree, "Corporate Capitalism and the Common Good: A Framework for Addressing the Challenges of a Global Economy," *Journal of Religious Ethics* 30 (2002): 79-106; Pamela Brubaker, *Globalization at What Price? Economic Change and Daily Life* (Cleveland: Pilgrim Press, 2001); Max L. Stackhouse and Peter J. Paris, eds., *God and Globalization*, vol. 1 Religion and the Powers of the Common Life (Harrisburg, Penn.: Trinity Press International, 2000); Cynthia Moe-Lobeda, *Healing a Broken World: Globalization and God* (Minneapolis: Fortress Press, 2002); Sallie McFague, *Life Abundant: Rethinking Theology and Economy for a Planet in Peril* (Minneapolis: Fortress Press, 2001); Ann-Cathrin Jarl, *In Justice: Women and Global*

These different approaches have attempted to address how economies could be geared toward meeting the well-being of all. The Catholic social ethics approach is a “common good” approach to social and economic problems. The liberal capitalist approach is “market-based” and has been criticized by Catholic social ethics as failing to meet the needs of all and of widening the gap between rich and poor. This criticism typically gets discussed in conversations about the role of profit in capitalist economies. The assumption is that there can be certain ethical claims made about how profit functions, or should function, in an economy. In Canadian Catholic social ethics, the implicit or explicit ethical convictions about the function of profit are guided by theological principles. Examining the theological principles and the ethical convictions discussed above, in light of assumptions about profit, helps to illustrate the strengths and limits of the various approaches in Canadian Catholic social ethics to social and economic problems.

Each of the three Canadian Catholic approaches have developed as critical responses to both capitalist and socialist analyses. Further, each makes explicit or implicit assumptions or claims about how profit should function in order to achieve the common good. I will examine these positions and assumptions in the following section.

#### 1.5.1 The Bishops on Profit

While their statements focus on various economic issues, the bishops are

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*Economics* (Minneapolis: Fortress Press, 2003).

consistent with their call for an analysis of and transformation of the capitalist economic system. They are motivated by the theological principles of justice, equality, the dignity of the person, the option for the poor, the dignity of labour, and the common good, and they challenge an economic system that they understand to be flawed. With these principles, the bishops call for the fullness of life for all people and call us all to participate with God's loving presence in history. Further, these principles are grounded in the gospel message of hope. They guide the bishops' efforts to analyse the social and economic situation, and they require a concrete response from Christians.

However, theological principles themselves do not provide an analytical economic understanding. For this, the bishops rely on social scientific research to better understand the problems of the distribution of wealth, unemployment, inflation, and other economic issues. Some conclusions about the function of profit and the ethical response can be drawn from their analysis.

For the bishops, particularly as discussed in "Ethical Reflections on the Economic Crisis," the central focus in modern international capitalism is on the priority of capital, and of profit, over labour and over communities. The bishops are concerned that international investment and investment in capital intensive production, driven by the desire for ever-increasing profits, lead to the breakdown of communities, the diminished dignity and impoverishment of people, and the destruction of the earth. As Duncan Cameron states, "What is suggested [by the bishops] is that the unrestrained search for profits by some may lead to generalized economic decline in which all

suffer.”<sup>140</sup> The bishops were concerned with policy directions such as the anti-inflationary measures taken by governments in order to control prices. These measures focussed on wage controls as the key cost-saving measure and led to increased unemployment. This occurred while there was still significant profit for and investment in big businesses.

The bishops question the view that increases in profits for businesses will lead to long term gains for workers and communities. They are not convinced that the short-term losses of jobs in an effort to lower costs and increase profit for investment leads to increased employment or investment that benefits communities or regions in the long run. Rather, they hold that capital gains from these measures actually go to capital intensive or foreign production, or to upper level incomes. So, although those promoting capitalist measures would claim that profit functions to strengthen productivity and allow for a climate where there is more employment and more community benefits, the bishops see the capitalist measures as socially destructive. For instance, the bishops state that with the capitalist system “the single-minded pursuit of self-interest is considered a value. The theory of the survival of the fittest leads many to accept widespread poverty and the concentration of wealth and power in the hands of a few. Industrial strategies are designed specifically to produce maximum gratification and profit, so that wasteful consumption is systematically promoted. In the process, both human beings and natural

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<sup>140</sup>Duncan Cameron, “Do Canada’s Bishops Make Sense?” in Baum and Cameron, *Ethics and Economics*, 120.

resources are abused or destroyed.”<sup>141</sup>

Ultimately, for the bishops, the function of profit in an economy should be to serve the basic needs of all. The bishops call for a shift in values from the self-interested pursuit of profit to a labour and community-centred approach. They state, “What is required first is a basic shift in values: the goal of serving the human needs of all people in our society must take precedence over the maximization of profits and growth, and priority must be given to the dignity of human labour, not machines.”<sup>142</sup> They indicate that this moral shift would involve an alternative economic model, and they identify some characteristics it would include. These are “socially useful forms of production; labour-intensive industries; the use of appropriate forms of technology; self-reliant models of economic development; community ownership and control of industries; new forms of worker management and ownership; and greater use of renewable energy resources in industrial production.”<sup>143</sup> But the bishops do not claim to be offering such a model. They encourage public debate on economic alternatives, broad public participation in local initiatives, the development of cooperatives, and community ownership of industries. This decentralized and democratic vision is seen by Baum to

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<sup>141</sup>CCCB, Social Affairs Commission, “A Society to Be Transformed,” in Baum and Cameron, *Ethics and Economics*, Appendix 3, 175.

<sup>142</sup>CCCB, Social Affairs Commission, “Ethical Reflections on the Economic Crisis,” in Baum and Cameron, *Ethics and Economics*, 13.

<sup>143</sup>CCCB, “Ethical Reflections on the Economic Crisis,” in Baum and Cameron, *Ethics and Economics*, 15.

indicate that the bishops are not calling for a return to Keynesian, demand-side and government-centralized economic policies.<sup>144</sup> Further, it is not an affirmation of monetarist, supply-side policies. The alternative seems to involve a social economic reform of capitalism, which may be considered “system-transcending.” But the bishops leave it to the public to debate this and for Christians to respond in line with their theological and ethical principles.

The key strength of the bishops’ view is their consistent call for a shift in values that would make meeting basic needs of all the goal of an economy. They criticize a narrow focus on the maximization of profit, and they call for democratic participation in and control of this process. This vision is guided by theological principles and is understood as an ethical imperative for Christians who want to live out the gospel message of justice. The bishops continually judge the economy by these principles and see its key failure in fostering human dignity and community.

However, the bishops’ view lacks a concrete, dynamic macroeconomic analysis that can precisely identify how profit can function in an economy to serve the goal of meeting the basic needs of all people. The bishops know that their theological and ethical principles alone are not sufficient to solve social economic problems; they are guiding principles. But what they must point to is insights into how economies work. The social scientific analytical tools upon which the bishops rely are based on

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<sup>144</sup>Baum, “The Shift in Catholic Social Teaching,” in Baum and Cameron, *Ethics and Economics*, 73.

assumptions about how economies work that are grounded in the very notion of a market that they are trying to challenge. The problem of the just distribution of wealth cannot be met if the analytical tools do not offer an explanatory understanding of the dynamism of economic activity.

### 1.5.2 Baum on Profit

Baum's analysis is supportive of the bishops' vision, but he goes further in seeking an alternative economic analysis by highlighting the social economy and by using the work of Karl Polanyi. Baum claims that the rise of neo-liberalism, with its view of the self-regulating market as the fair distributor of wealth, has led to the emergence of three social economic sectors: the professionals and elites; the middle class and small business people; and the working poor, unemployed, or destitute. This is a situation which Baum claims "violates fundamental ethical principles" as indicated by various Christian churches.<sup>145</sup> Baum reiterates John Paul II's claim that the problem is not markets themselves, but how they are directed and controlled.<sup>146</sup> He claims that of the two main approaches promoted in Christian debates about how to respond to the

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<sup>145</sup>Baum, "Christians and the Economic Debate," *The Ecumenist*, 13

<sup>146</sup>Baum, "Christians and the Economic Debate," *The Ecumenist*, 13. Here Baum states that "a just society, as John Paul II reminds us, 'is not directed against the market, but demands that the market be appropriately controlled by the forces of society and by the state, so as to guarantee that the basic needs of the whole society are satisfied'" (*Centesimus Annus*, § 34); see John Paul II, *Centesimus Annus (The 100<sup>th</sup> Year)*, 1991, reproduced in Michael Walsh and Brian Davies, eds., *Proclaiming Justice and Peace*, 432-478.

economic problems, the neo-Keynesian social democratic approach and the social economic approach, the latter offers the best alternative.

Baum recognizes the problems of the context of globalization and claims that there is no place for a return to the Keynesian welfare state. Currently, national economies are giving way to a global economy, and governments are increasingly adjusting domestic policies to global neo-liberal demands.<sup>147</sup> As well, for Baum, the Marxist socialist alternative has lost credibility with the rise of globalization and the fall of communist political economies. Marxist analysis remains significant in Catholic circles, mainly for its critique of capitalist ideology and its cultural influence, and for its emphasis on praxis as well as critical reflection.<sup>148</sup> However, for Baum, Marxist socialism does not transcend the utilitarianism that has influenced liberal capitalism. It merely extends self-interest to the collective rather than the individual, in a way that does not allow for the role of human freedom in the transformation of society.<sup>149</sup> Baum

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<sup>147</sup>Baum, "Are We In A New Historical Situation?" in *Stone Soup*, 34.

<sup>148</sup>For an analysis of the significance of Marxist thought for Christian reflection, see Baum, "The Impact of Marxist Ideas on Christian Theology," in *The Twentieth Century: A Theological Overview*, ed. Gregory Baum (Maryknoll, NY: Orbis Books; Ottawa: Novalis; London: Geoffrey Chapman, 1999), 173-185. Many critical theologians, including feminist liberationist theologians and social ethicists maintain the importance of revisionist Marxist critical theory in their work. These include Beverly Harrison, Mary Hobgood, and others. For an interesting discussion of the place of Marxist critical theory in feminist liberationist theology and ethics, see Ann-Cathrin Jarl, *In Justice*.

<sup>149</sup>See Baum, "The Impact of Marxist Ideas on Christian Theology," in *The Twentieth Century*, 182.

claims some support for a revisionist use of Marxist analysis, such as is used in the thought of the Frankfurt School, and points to the humanistic vision of Marx's early philosophical writings as important for getting a fuller grasp of Marx's thought.

However, Baum maintains the limits of Marxist socialism as an economic theory that offers no real ethical response.

Baum ultimately argues for an ethics of solidarity that is communally, culturally, and religiously grounded.<sup>150</sup> Baum sees the social economic movements of community economic development (CED), community development corporations, and cooperative movements as offering a hopeful alternative that focusses on social and economic needs together. Baum supports the community-building and democratic focus in social economic approaches. He argues that they contribute to Karl Polanyi's goal of "re-embedding" economic activities within their social context and promoting a critical social consciousness grounded in meeting local needs.<sup>151</sup>

Baum's support of the social economic alternatives centres around their locally-based, community-building, democratically-controlled approach. This differs from the centralist, government regulated Keynesian approach, whereby profits are re-directed towards demand-side measures, such as full-employment. It also differs from the neo-liberal self-regulating market approach, whereby the maximization of profit in itself is

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<sup>150</sup>Baum makes reference to "a new ethics of solidarity" in Polanyi's work, but his own views on solidarity come across throughout his writing. See Baum, *Karl Polanyi on Ethics and Economics*, 69-83.

<sup>151</sup>Baum, "Christians and the Economic Debate," *The Ecumenist*, 15.

understood as leading to economic growth and social benefits. In the social economic view, profit has a social function that involves providing support for community-based development. This, in turn, gradually transforms economic structures to be increasingly democratic and community-oriented.

However, Baum recognizes the relevance of a key concern of critics, that there is a real vulnerability of social economic movements, particularly CED, in that their non-profit approach leads to their dependence on public or private financial support to operate. The fear is that this may limit CED to remaining a third sector response. The further concern is whether community economic development really offers an alternative to neo-liberal capitalism if it relies on external financial support to exist. There is a need for a macroeconomic analysis that can provide a framework for these concerns, allowing for a better understanding of the broader, long-term vision of social economic alternatives.

### 1.5.3 Coady and the Antigonish Movement on Profit

The social economic approach of Moses Coady and the Antigonish Movement is consistent with the social economics approach outlined by Baum. It promotes a locally-based, community-building, and democratically-controlled understanding of the economy. However, Coady did not offer a macroeconomic analysis that would allow for a broader critique of capitalism. Coady was grounded in the context of the east coast of Canada in the 1920s and 1930s, and this context has changed significantly since that

time.

Coady held that the capitalist system was flawed in its foundation because it invariably led to dependency.<sup>152</sup> Coady believed that the dependency fostered by the need for government support was contributing to the loss of dignity of people and the loss of community. Coady held that there was something more than self-regulation through competition needed to guide economic activity,<sup>153</sup> and this direction was found in well-informed decisions of all people. For Coady, human dignity was closely connected with people using their God-given intelligence to understand and to democratically control their economic lives.

Coady's theological vision supports the cooperative approach to development. He calls for religious values to dynamize life and allow people to seek its richness. The goal of cooperative development, then, is not merely achieving material well-being: it is living out human dignity fully. Religiously-guided living leads people to act out of their own dignity and for the dignity of others, and it leads to the intelligent transformation of the economic system. For Coady, allowing ongoing poverty contributes to what he calls a "proximate occasion of sin," and there is a moral obligation for people to make the possibility of sin more remote.<sup>154</sup> This moral response becomes a theological response in

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<sup>152</sup>Coady, *Masters of Their Own Destiny*, 20.

<sup>153</sup>As Coady states, "As well try to fix a watch with a crowbar as to regulate the delicate economic machine with competition." Coady, *Masters of Their Own Destiny*, 22.

<sup>154</sup>Coady, *Masters of Their Own Destiny*, 145.

acting to co-create a world that allows for increased opportunities for holiness to emerge.

Coady and the Antigonish Movement promoted cooperative development in their adult education programs. Consumer cooperatives allowed consumers to own a business where the decisions were made democratically, and where the consumer members would have a share in the returns. Producer cooperatives would allow producers to control their industries, set prices and wages, and get a better price for their products. In these cases, profits would be reinvested in the business and/or distributed to members. Credit unions were developed as a financial support that allowed access to loans and affordable repayment programs. For Coady, the consumer cooperative was key, as consumers' control of where they spend their money and how it is used allows for democratic economic control. Profit, in this instance, goes back to the consumers, so their money goes further. As Coady states, "The sum that constitutes the profit in private business, in a cooperative is regarded as an overcharge and eventually finds its way back to the consumer."<sup>155</sup>

Coady's locally-based, community-building, and democratically-controlled approach does offer elements of a "system-transforming" response to the capitalist economic approach, in that it sets the conditions for the kinds of economic participation and relationships that implicitly challenge the individualism and materialism of the capitalist model. However, in order to fully address the kinds of challenges that

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<sup>155</sup>Coady, *Masters of Their Own Destiny*, 74.

economic problems pose, a broader macroeconomic analysis is required. Coady's approach depends on government or private funding; without a macroeconomic analysis, it is difficult to identify how cooperative businesses can sustain themselves within the wider economy. Finally, the kind of independence and improvements in living conditions that Coady was working towards requires an understanding of how profit functions in the larger economic framework. The proper role of profit actually can contribute to the process of economic growth and improving living conditions for everyone, but it must be managed intelligently, responsibly, and democratically.

### **1.6 Concluding Remarks**

The three approaches in Canadian Catholic social ethics to economic problems that I have discussed in this chapter identify some key theological principles that guide concerns for economic well-being and carry ethical obligations for improving the economic order. The Canadian bishops are guided by the theological principles of justice, human dignity, the option for the poor, the priority of labour, and the common good in setting out guidelines for a practical response to economic problems. This response includes an effort at analysing the economy in order to understand how to make improvements. Some commentators interpret the bishops' response as part of the social democratic, reformist approach, and others understand it to be part of the system-transforming social economic approach. Still others consider it to be consistent with the radical socialist approach. The bishops leave it to Christians to decide which response is

most adequate, but they stress the importance of full participation in economic and social decision making.

Baum appreciates the bishops' efforts but goes further in supporting the social economic approach. Baum claims that the social democratic approach is no longer viable in the context of globalization. He supports the social economic movements arising out of the third sector of society, those who are most marginalized. Baum acknowledges the importance of social scientific analysis in order to solve economic problems, and he turns to the work of Karl Polanyi to provide an analysis and critique of the "self-regulating" market. Baum's work is part of a larger effort at "emancipatory commitment" that involves solidarity with those who are most vulnerable. This is his guiding theological vision.

Moses Coady has left a legacy of cooperative organizations and community empowerment from his years of work through the Antigonish Movement. Guided by Catholic social ethical notions of social justice and subsidiarity and by the importance of "God-given intellect" and freedom, Coady set out to provide adult education for people who were highly marginalized and who had little control over their own economic lives. By supporting the development of cooperatives, Coady was attempting to set the conditions for strong community development that would make the socially sinful situation of poverty and the lack of human dignity more remote. Coady's efforts were to encourage and empower people to participate in economic decisions, to increase their consumer power, and to manage production all with the goal of economic and social

well-being for communities. Economic participation and power would allow for human dignity to be more fully realized.

All three of these approaches offer insights into the economic and social problems faced in their day and that are still challenging societies, particularly in the context of globalization. Some of the insights of these approaches overlap, with similar theological guiding principles and similar ethical responses. I argue that what is lacking in all three is a broader macroeconomic analysis that would ground their ethical responses in measures whose contribution to economic improvements could be understood with precision. In order to transcend the limits of the typical supply-side versus demand-side debates, the three approaches need a more general explanatory analysis that can set discussions about the function of profit, the distribution of wealth, and unemployment in a broader analytical context. Further, rather than applying ethical principles to the current economic model, a new macroeconomic analysis needs to be understood as involving its own ethical obligations, to which people respond democratically by way of the intelligent management of the economic order. The economic order is situated in a broader ethical framework that takes into account increasingly complex horizons of ethical concern that support and condition the ongoing performance of the economic order in meeting its goal, which is to provide and improve the standard of living for all people.

In the following chapters, I offer the macroeconomic analysis and ethical framework developed by Bernard Lonergan as a contribution to the discussion regarding

ethics and economics in Catholic social ethics. Lonergan has developed a general macroeconomic analysis that builds on the work of economists such as Joseph Schumpeter. Like the three approaches discussed in this chapter, Lonergan was critical of the basic assumptions of liberal capitalism and of the responses of Marxist and Keynesian approaches. Lonergan's macroeconomic analysis outlines the economic order by way of two distinct circuits of productive activity and circulations of payments. These circuits and relations are dynamic, and different phases of productive activity indicate economic shifts and growth. Profit has a key role in these shifts, which must be managed intelligently, responsibly, and democratically in light of the ultimate goal of providing and improving the standard of living for all people. Ultimately, the general analysis that Lonergan offers must be worked out locally with concrete contextual practices, like those of the social economic movements, in an effort to ground an alternative to the market mechanism and to address concerns on local, regional, national, and international scales.

In the following two chapters, I outline Lonergan's macroeconomic analysis and identify the function of profit in achieving the goal of the economic order. In chapter four, I discuss Lonergan's ethical framework as grounding the dynamism and the ethical obligations of the economic order and as situating the economic order in a larger context of social and cultural relationships. In this discussion, profit is understood as involving its own ethical obligations that must be considered within the context of the dynamism of the economic order. Finally, in chapter five, I offer a discussion of the theological

considerations of Lonergan's economic analysis and ethical framework. Here I return to a discussion of Lonergan's work and situate it in the broader context of conversations in Catholic social ethics on economics.

## **Chapter Two**

### **Loneragan's Macroeconomic Theory**

#### **2.1 Introduction**

As I have outlined in the discussion of Canadian Catholic social ethics on economics, there is a need for an ethical response to the social and economic problems of our times. The three approaches discussed here ground their positions in theological and ethical principles that are rooted in the gospel. However, they also acknowledge the need for a social theory and economic analysis in order to better understand the social and economic problems that are being addressed. While the three approaches identify key ethical and theological principles and make use of social scientific analyses, I argue that their key weakness is the lack of an alternative macroeconomic analysis, without which these positions ultimately are restricted by the limits of the existing analyses they are trying to challenge.

The Catholic bishops, Gregory Baum, and Moses Coady and the Antigonish Movement challenge the capitalist analysis for its grounding in the notion of the automatic market mechanism. This notion holds that the unrestricted pursuit of profit and self-interest will automatically lead to the public good by way of competition in the production and sale of goods and services. The three positions argue that in fact capitalism has served to widen the gap between rich and poor, has led to social and environmental degradation, and has eroded democracy. The bishops and Baum recognize the contribution of Marxist socialist analysis in highlighting the problem of

economic domination over the political. However, they reject the Marxist ideology as ultimately atheist, determinist, and conflictual. Further, the Marxist analysis does not transcend the market mechanism notion of economic relations and does not offer an alternative macroeconomic analysis.

The social democratic Keynesian analysis is criticized by Baum as not providing a real alternative in the context of globalization, where the power of nations is weakened in light of growing international corporate powers. Moreover, the Keynesian approach claims to adjust the flaws of capitalism with government regulation, but it has not been able to address ongoing problems, such as stagflation and recessions. Further, the focus on demand-side economic solutions has neglected the need for creative productive (supply-side) development. The monetarist supply-side approach is limited in focussing entirely on productivity and not on social systems and consumer support. The ongoing supply-side versus demand-side debate tends to overlook the importance of *both* production and distribution, as each analysis alone is unequal to the task of identifying how these relationships work. This understanding requires a new macroeconomic analysis.

The macroeconomic analysis of Bernard Lonergan offers an alternative to liberal capitalist, Keynesian social democratic, and Marxist socialist analyses. Further, Lonergan provides a social ethical framework and a broader theological vision, which sets up an approach for concretely living out the ethical and theological principles that are affirmed in the Catholic social tradition. In this chapter and in those that follow, I

argue that Lonergan's macroeconomic analysis provides a framework for better understanding and implementing the ethical project articulated by my three conversation partners in Canadian Catholic social ethics on economics.

The key distinction between Lonergan's macroeconomic analysis and mainstream analyses is its identification of two distinct circuits of productive activity and exchange. Mainstream macroeconomic analysis relies on a single circuit model of supply and demand between households and firms. Economists like Joseph Schumpeter, however, have found this model to be inadequate for understanding the dynamic rhythms of economic cycles. Lonergan follows the direction suggested by Schumpeter and develops a two-circuit analysis in which transactions, payments, and productive activity perform two distinct functions. Each circuit has its own cycle of expansion and contraction in rates of growth. Understanding the way the two circuits interact over time gives rise to an understanding of the dynamic cycles of an economy. Within these dynamic cycles, flows of payments are in relationship with the flows of productive activity. The interdependence of this relationship is essential in understanding the rhythms of an exchange economy, as productive activities need to be financed in order to function, and increased rates of production require increased financing. Lonergan outlines his macroeconomic analysis by illustrating the basic elements of an exchange economy; he then examines how external factors such as government controls and trade are introduced into the basic variables and relations of this economic structure.

Further, in Lonergan's analysis, economic activities are not automatic, as with

the mainstream market mechanistic notion. Rather, they are managed democratically by all of those participating in economic life. This democratic approach to the economy allows for the ultimate goal of achieving and improving a standard of living for all. This achievement is distinct from, but related to, the political democratic goal of achieving broader social goods in common.

Lonergeran's macroeconomic analysis is outlined in two volumes recently published in the Collected Works of Bernard Lonergan series, namely *For A New Political Economy* and *Macroeconomic Dynamics: An Essay in Circulation Analysis*.<sup>156</sup> A substantial body of work has already developed in response to Lonergan's economic analysis. Much of this work has attempted to summarize and explain the economic analysis.<sup>157</sup> Others have used Lonergan's macroeconomics to analyse economic issues.<sup>158</sup>

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<sup>156</sup>Bernard Lonergan, *For A New Political Economy*, ed. Philip McShane, CWL 21 (Toronto: University of Toronto Press, 1998), includes an early draft of "For a New Political Economy" (circa 1942) and "An Essay in Circulation Analysis" (1944), as well as fragments of related material. Bernard Lonergan, *Macroeconomic Dynamics: An Essay in Circulation Analysis*, eds. Frederick G. Lawrence, Patrick H. Byrne, and Charles C. Hefling, Jr., CWL 15 (Toronto: University of Toronto Press, 1999), is based on Lonergan's last and incomplete version of the essay (1983), adding some earlier material, along with Lonergan's article "Healing and Creating in History," which was previously published in *Bernard Lonergan: 3 Lectures*, ed. R. Eric O'Connor (Montreal: The Thomas More Institute, 1975); *A Third Collection: Papers by Bernard J.F. Lonergan*, ed. Frederick E. Crowe (London: Geoffrey Chapman; New York and Mahwah, NJ: Paulist Press, 1985), 100-109; and *The Lonergan Reader*, ed. Mark D. Morelli and Elizabeth A. Morelli (Toronto: University of Toronto Press, 1997), 566-576.

<sup>157</sup>See for example, Eileen de Neeve, "Bernard Lonergan's 'Circulation Analysis' and Macrodynamics" (Ph.D. diss., McGill University, 1990); Paul Hoyt-O'Connor, *Bernard Lonergan's Macroeconomic Dynamics*, Mellen Studies in Economics Series (Lewiston, Queenston, Lampeter: The Edwin Mellen Press, 2004);

Still others have related Lonergan's economic analysis to theology and ethics.<sup>159</sup> This body of work relating to Lonergan's economic analysis has become a significant contribution to the broader field of Lonergan studies.

Lonergan's macroeconomic analysis emerged, in part, from his engagement with the Catholic social thought of the 1930s. Lonergan's interest in economics arose in the context of the post-World War I period and the Great Depression. Lonergan had been writing in the early 1930s on political economy. For Lonergan, political economy involved, "(a) a philosophy of history oriented toward the transformation of social practice; and (b) an empirical analysis of the processes and structures in the production

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Philip McShane, "Generalized Empirical Method and the Actual Context of Economics," in *Creativity and Method: Essays in Honour of Bernard Lonergan, S.J.*, ed. Matthew Lamb (Milwaukee: Marquette University Press, 1981), 534-71; Philip McShane, *Economics For Everyone: Das Jus Kapital* (Halifax: Axial Press, 1999, c1995).

<sup>158</sup>For example, see Bruce Anderson, "Foreign Trade in Light of Circulation Analysis," *Journal of Macrodynamics* 1 (2001): 9-31; online at <http://www.mun.ca/jmda/vol1/foreign.pdf>; Paul Hoyt-O'Connor, "Macroeconomic Dynamics and the Work of Nations: Lonergan and Reich on the Global Economy," *Method: Journal of Lonergan Studies* vol. 17, no. 2 (Fall 1999): 111-131; Philip McShane, *Pastkeynes Pastmodern Economics: A Fresh Pragmatism* (Halifax: Axial Press, 2002); Bruce Anderson and Philip McShane, *Beyond Establishment Economics: No Thank-You, Mankiw* (Halifax: Axial Press, 2002).

<sup>159</sup>Patrick Byrne, "Economic Transformations: The Role of Conversions and Culture in the Transformation of Economics," in *Religion and Culture: Essays in Honour of Bernard Lonergan, S.J.*, eds. Timothy J. Fallon and Philip Boo Riley (Albany, NY: SUNY Press, 1987), 327-48; Eileen de Neeve, "Suspicion and Recovery: Ethical Approaches to Economics," *Method: Journal of Lonergan Studies* 15 (Spring 1997): 29-49; and Steve Martin, "'Healing and Creating' in Economic Ethics: Christian Ethics, Social Economics, and Bernard Lonergan in Conversation" (Ph.D. diss., Marquette University, 2000).

of the material substratum of human societies and cultures.”<sup>160</sup> Lonergan began considering the problem of political economy during his early philosophy studies in England, influenced by his ethics professor Lewis Watt.<sup>161</sup> At this time, Lonergan was concerned with the relationship of ethics and economics. He noted the problems that resulted from a rigid attachment to the “laws” of capitalism, leading to the neglect and further exploitation of the poor. However, the effort to pay a “just wage,” as was promoted by Catholic social teaching to alleviate the suffering of the poor, would leave businesses broke, and thus powerless to help. So, the problem for Lonergan was to understand how moral imperatives could be grounded in an alternative understanding of the economy itself and not simply formulated as external, abstract directives.<sup>162</sup>

Lonergan was interested in some movements taking place in Canada in the 1930s and 1940s that were responses to social and economic problems. He paid attention to the ideas of Clifford H. Douglas regarding social credit, which tried to address the problem of the gap between the wages of workers and the cost of living. The solution for Douglas was to provide a social credit to workers to supplement their inadequate income. Although sympathetic to the concern, Lonergan found this solution

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<sup>160</sup>Frederick Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, xxvii. Lawrence presents a thorough discussion of the influences on and development of Lonergan’s thought on economics in his introduction.

<sup>161</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, xxvii-xxviii.

<sup>162</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, xxviii.

itself inadequate, because it would inevitably lead to inflation.<sup>163</sup> Also, Lonergan was interested in cooperative movements in Canada at the time, including the Antigonish movement in Canada's east coast. In fact, Lonergan wrote a review of Moses Coady's *Masters of Their Own Destiny*.<sup>164</sup>

Lonergan's analysis was a response to the need for an alternative political economic approach. He was opposed to trends toward communist socialism and totalitarianism, which imposed political and economic order on populations. He also opposed the individualist utilitarianism of liberal capitalism, with its sacrifice of the common good to a belief in automatic progress. Lonergan recognized the need to understand how economies work and how they work well, and he saw this as essential to establishing and sustaining democratic freedom.<sup>165</sup> His study of economics informed his efforts to distinguish and interrelate the economic and political orders.

In order to achieve a democratic economics, a scientific generalization or systematic explanation of economics was required that would provide a tool for organizing ordinary people without destroying their freedom.<sup>166</sup> Lonergan identified the

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<sup>163</sup>Lawrence, "Editors' Introduction," in *Macroeconomic Dynamics*, xxix. Lawrence states that Lonergan's effort to understand why Douglas's solution was inflationary led to his insight into a key aspect of his own economic analysis, that of balancing the crossovers between the basic and surplus circuits.

<sup>164</sup>Lonergan's review of *Masters of Their Own Destiny* was published in *The Montreal Beacon*, May 2, 1941.

<sup>165</sup>Lawrence, "Editors' Introduction," in *Macroeconomic Dynamics*, xxx.

<sup>166</sup>Lonergan, *For a New Political Economy*, 8.

need for an alternative to the classical capitalist, Marxist socialist, and Keynesian social democratic economic theories.<sup>167</sup> His macroeconomic analysis offers an understanding of the dynamic schemes of economic orders and sets out the basic terms and relations that identify the key variables in economic activities. The analysis allows for an understanding of the causes of economic events, variations in relations among variables, and their significance to the economic order as a whole. In doing this, it calls forth a moral response from all people to make decisions that will direct economic activity with the ultimate goal of the well-being of all in mind. For Lonergan, the new theoretical approach would function as a tool for democracy that would ground moral principles and call forth broad participation in economic decision-making.<sup>168</sup>

Lonergan's macroeconomic analysis outlines the relationships among productive activity, circulations of payments, and finance. Mainstream macroeconomic analyses offer a standard one-circuit model of economic activity, which outlines the movement of payments from households to firms by way of payments for goods and services, and

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<sup>167</sup>The section called "Lonergan's Interlocutors in Economics," in Lawrence, "Editors' Introduction," in *Macroeconomic Dynamics*, xliii-liv, outlines some of Lonergan's economic influences, as well as his points of departure from various economic thinkers. Lonergan was significantly influenced by the work of the Austrian economist Joseph Schumpeter. He shares some of Schumpeter's criticisms of Keynes. Lonergan also indicates throughout his writing what he considers to be the limitations of classical and Marxist theories. I will indicate these limitations further in the following chapters.

<sup>168</sup>Lonergan, *For a New Political Economy*, 8; Lawrence, "Editors' Introduction," in *Macroeconomic Dynamics*, xxxii-xxxix.

from firms to households by way of wages, rent, and profit.<sup>169</sup> In opposition to this analysis, Lonergan distinguishes between two circuits or flows of goods and services in the schemes of economic activity: the basic and surplus circuits. The basic circuit functions to produce the goods and services that ground the standard of living; the surplus circuit functions to produce goods and services that allow for the acceleration of the basic circuit, leading to the further development of the standard of living.<sup>170</sup> This two-circuit analysis allows for an understanding of economic activity as dynamic. Each circuit expands at different times, and the interaction between the circuits gives rise to a dynamic analysis of economic phases and rhythms. Guiding the economy involves citizens making decisions for the well-being of all. There is no sense that economic activities and relations function automatically or that equilibrium must be imposed by government regulation.

In Lonergan's macroeconomic analysis, the functional distinction between the basic and surplus circuits and the recognition that these circuits have their own dynamic phases, allow for two meanings of profit and its function in an economy. On one hand,

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<sup>169</sup>McShane and Anderson offer a thorough analysis of a standard macroeconomic approach from Gregory Mankiw's *Principles of Macroeconomics*, a popular American undergraduate economics text. Their analysis highlights the differences between the standard model and Lonergan's macroeconomics. See Anderson and McShane, *Beyond Establishment Economics*, particularly chapters five and six.

<sup>170</sup>This distinction is outlined in *For a New Political Economy* in terms of primary and secondary rhythms (16), and later in the "Essay on Circulation Analysis" as basic and surplus stages (238). *Macroeconomic Analysis* refers to basic and surplus stages throughout.

profit is understood in an ordinary sense (“normal profit”) as the “excess of receipts over bills payable during stationary states enabling entrepreneurs or managers to keep firms solvent and to maintain a standard of living proportionate to their contributions.”<sup>171</sup> However, there is a second type of profit generated in an exchange economy, which Lonergan calls “pure surplus income;” it is the return on entrepreneurial activity during the expansion of the surplus circuit that must be re-invested in that expansion. This expansion eventually functions to improve the standard of living of the entire community by shifting to an expansion of the basic circuit. It is this second type of profit that Lonergan understands to function as a “social dividend.”<sup>172</sup>

The following discussion will outline the key aspects of Lonergan’s macroeconomic analysis. First, I discuss Lonergan’s distinction between the basic and surplus circuits of production. I also discuss the role of the redistributive function, which is key in the financing of economic activities in both circuits. Further, I discuss the circulation of payments and turnover frequency relating flows of production and payments. Then, I consider the different phases of the productive process. Finally, I highlight the significance of Lonergan’s macroeconomic analysis. In the next chapter, I

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<sup>171</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, lxv.

<sup>172</sup>For a discussion of the “social dividend,” see “The Cycle of Basic Income,” 133-144, and “The Cycle of Pure Surplus Income,” 144-156 in Lonergan, *For a New Political Economy*; and Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, lxiv. The distinction between “normal profit” and “pure surplus income” will be discussed further in chapter three.

discuss Lonergan's understanding of how profit functions in an economy as a social dividend, allowing for the ultimate achievement of an improved standard of living for all.

## 2.2 Lonergan's Basic Distinction of the Circuits

Lonergan's macroeconomic dynamic analysis outlines the relationship between flows of production and the circulation of payments within and between the basic and surplus productive circuits. Lonergan's analysis provides a foundation for explaining the economic order based on the conditions internal to the basic and surplus circuits and based on the relationships between the circuits, modified according to the shifting economic phases.<sup>173</sup> It also provides a generalized analysis of the causes of events (like economic recessions), variations in relations (like between inflation and employment), and their significance to the economic order as a whole.

This analysis also provides a framework with which ethical judgments and decisions are made. The economic order is evaluated to determine if it is serving the purpose of improving the standard of living for all or if it is heading for decline. Thus,

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<sup>173</sup>Lonergan's analysis focuses on concrete insights into economic activities, requiring attentiveness to the rhythms of actual, preferably regional, economies. This concrete focus has been taken up by Philip McShane and Bruce Anderson in their efforts to illustrate Lonergan's work. It is also the basis of part of their criticism of how poorly conceived economic theories get passed on in academia, journals, and policies. See Anderson and McShane, *Beyond Establishment Economics*; McShane, *Economics For Everyone*; and McShane, *Pastkeynes, Pastmodern Economics*.

decisions are a variable in the processes of production and exchange.<sup>174</sup> For Lonergan, a macroeconomic analysis must contribute to the democratic control of the economy. This means that economic decisions are made by everyone in the light of commonly held principles of economic dynamics. Understanding how an economy functions well is part of doing what is good for the community. The good of the community is achieved by implementing this understanding through the ordinary decisions that we make in economic life and through fostering a long term vision of the well-being of everyone.<sup>175</sup>

### 2.2.1 Functional Distinction

In order to understand the distinction between the basic and surplus circuits, it is important to understand what Lonergan means by economic activity: it is the “aggregate of ordered and variable processes and rhythms by which human beings transform the potentialities of nature to fulfill the material conditions of human existence in a standard of living.”<sup>176</sup> According to Lonergan, the proper goal of economic activity is to provide

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<sup>174</sup>Lonergan, *For a New Political Economy*, 109. This introduction in Lonergan’s essay on circulation analysis is part of the fragments of the essay written between 1942-44, but it was not part of the 1944 essay.

<sup>175</sup>Lonergan discusses these themes in chapter one of *For a New Political Economy*, 3-10. The discussion of democratic economics, goods of order, and moral precepts is outlined by Lawrence in his “Editors’ Introduction” in *Macroeconomic Analysis*, xxvii-xxxix. I will return to these themes in chapters three and four.

<sup>176</sup>Lawrence, “Editor’s Introduction,” in *Macroeconomic Dynamics*, lix. Lonergan refers to an economy as an ecology that is conditioned by the schemes of nature and the schemes of human collaboration and intelligence. See Lonergan, *Macroeconomic Dynamics*, 3-4. This claim by Lonergan is complemented well with that

an adequate standard of living that allows for the development of a cultural order.<sup>177</sup>

With this empirical understanding it is possible to identify two circuits of supply and demand with different functions or purposes in their productive activities. The function of the basic circuit is the production of the standard of living; the function of the surplus circuit is the transformation of the material conditions to allow for further development of the standard of living.

Lonergan claims that the basic circuit functions as the velocity, involving the production of consumer goods and services and the circulation of basic payments for those goods and services; the surplus circuit functions as the accelerator, involving the production of producer goods and services and the circulation of surplus payments that serve to accelerate the basic circuit.<sup>178</sup> The circulation of payments involves the exchange of goods and services for money. Further, it allows for wages to be paid in the production process. The acceleration of the basic circuit by the surplus involves a

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of Jane Jacobs in her understanding of economies as ecologies, although Jacobs' analysis is not systematic. See Jane Jacobs, *The Nature of Economies* (Toronto: Random House Canada, 2000).

<sup>177</sup>Lawrence, "Editors' Introduction," in *Macroeconomic Dynamics*, xxxi-xxxii. Lawrence identifies Lonergan's understanding of the standard of living as "the betterment of the material conditions of human existence ... the material substratum for the cultural creations of human ingenuity and aspiration." Lonergan's understanding of "standard of living" will be discussed further in the context of his analysis, and the cultural order will be discussed within the framework of Lonergan's structure of the good and scale of values.

<sup>178</sup>Lonergan, *Macroeconomic Dynamics*, 14-16, and 31-35; Lonergan writes here of accelerations and velocities and of short and long-term accelerations. See also Lawrence, "Editor's Introduction," in *Macroeconomic Dynamics*, lix.

greater distribution of goods and services, and of income, as the surplus circuit goes through expansions of productive activity that are supported by redistributed investments.<sup>179</sup>

In order to grasp the key insight in Lonergan's economics regarding the distinction between the basic and surplus circuits, a concrete example illustrates the general, empirical nature of Lonergan's analysis.<sup>180</sup> For example, my maternal grandmother ran a store out of her house in Prince Edward Island in the 1950s, and my paternal grandfather fished lobster in Nova Scotia from the 1940s to 1980s. These are concrete and familiar illustrations for me. In the case of the fishing illustration, it is easily understood that the use of boats and traps are innovations that have transformed the practice of fishing. These innovations also transformed the communities where fish were caught, bought, and sold, and where boats and traps were built, bought, and sold. These innovations were accelerators of the production of a basic good: fish. Of course, the shifts in the fishing industry have been ongoing through the years.<sup>181</sup> Modern-day

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<sup>179</sup>The shifts in economic phases will be discussed in more detail in section 2.6.

<sup>180</sup>The basic distinction is illustrated concretely in chapter one of Philip McShane, *Economics for Everyone*. McShane uses the illustration of an imagined island economy and the innovations in its farming culture.

<sup>181</sup>It is important to note that some innovations in this industry, such as the use of off-shore trawlers and factory fishing, have been so "efficient" that some fisheries in the east coast of Canada (and elsewhere) have collapsed. This is a complex matter that has involved mismanagement among in-shore and off-shore fishers, industry interests, and government regulators, regionally, nationally, and internationally. The issue of intelligently managing the economy, and industries, must take into consideration generations to come and the rhythms and limits of the natural processes upon which

fishers, like my father, use boats that are motorized and use sonar, global positioning, and other devices for navigation. In lobster fishing, the traps themselves have even transformed from the old-style wooden lobster traps (that now decorate the lawns of many houses in the east coast of Canada) to lighter and more durable wire traps.

The transformations and innovations in the fishing industry point toward the distinction that Lonergan makes. In my fishing illustration, it is possible to identify the difference between the activity of fishing and the activities that transform the activity of fishing. The activity of fishing functions to provide food that will be consumed by those who buy fish directly from the fisher or indirectly from stores or restaurants. As a finished product, fish are purchased as goods that go into the standard of living.<sup>182</sup> Other examples of basic goods and services include wood for building private homes, sports equipment for recreation, and movies and music for entertainment. The key point is not what the goods and services are or who uses them, but how they are used as a final product; that is, their function. It is a distinction between types or levels of activities, and these activities are identified by their economic functions.<sup>183</sup>

Returning to the fishing illustration, a distinction in economic activity can be made between the activity of providing fish and the activity of providing boats and

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economies depend.

<sup>182</sup>McShane, *Economics for Everyone*, 22. It is important to note that goods and services leave the productive process when they are paid for as a final product. I will discuss the flow of payments in relation to the two circuits in section 2.4.

<sup>183</sup>McShane, *Economics for Everyone*, 23.

providing traps. It is a distinction between activities that provide goods and services that are used directly in the standard of living, and activities that provide goods and services that are used in the production of other goods and services. This is the distinction between basic and surplus activities: basic goods and services enter the standard of living and surplus goods and services raise the standard of living.<sup>184</sup> The distinction becomes more complicated, however, particularly in the attempt to classify particular goods or services as basic or surplus. The classification of a good or service as basic or surplus depends on its use when it is sold as a finished product.<sup>185</sup> To use another illustration, my uncle owns a small saw mill. His equipment is used in basic productive activity when he is cutting wood to build a barn for his horses, but it is used in surplus productive activity when he is cutting wood for commercial sale to build a factory.

The distinction can be further illustrated in the discussion of what Lonergan calls “point-to-point” and “point-to-line correspondences.”<sup>186</sup> This is a difference between direct correspondences and higher order correspondences involving elements in the productive process. There is a point-to-point correspondence between, for instance, the cattle involved in the production of meat, or the fish involved in the production of fish chowder. So, 500kg of fish will correspond to a certain number of cans of food (along with the other goods that go into its production). The fish are used up in the process of

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<sup>184</sup>Lonergan, *Macroeconomic Dynamics*, 23.

<sup>185</sup>Anderson and McShane, *Beyond Establishment Economics*, 25.

<sup>186</sup>Lonergan, *Macroeconomic Dynamics*, 23-28.

producing food and can only produce a determinate amount. In contrast, there is a point-to-line correspondence between the nets that are elements in the fishing process and the fish that are the product. The nets are not used up in the process of one catch, but may be used continuously (until they wear out and need to be replaced). In this sense, the correspondence between the nets and fish is limited, but indeterminate, so that the nets become tools of production that only affect the standard of living indirectly by facilitating a series of catches of fish.<sup>187</sup> The correspondences can be understood in even higher orders when thinking about the tools and machines that make the nets that catch the fish.<sup>188</sup> These further correspondences between factors in the productive process indicate that with the distinction between basic and surplus productive activities, there are the further levels of surplus activity that further accelerate production on lower levels.

### 2.2.2 The Pure Cycle and the Double Summation Formula

There are rates at which goods and services are produced and rates at which the standard of living emerges.<sup>189</sup> There will be a determined amount of the given goods and

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<sup>187</sup>Lonergan, *Macroeconomic Dynamics*, 24. In discussing point-to-line correspondence Lonergan states, “elements in the productive process correspond not to single elements in the standard of living but to indeterminate series of the latter.”

<sup>188</sup>Lonergan, *Macroeconomic Dynamics*, 24-25. Lonergan goes on here to discuss point-to-surface and point-to-volume correspondences.

<sup>189</sup>Lonergan, *Macroeconomic Dynamics*, 28. Also, McShane, *Economics for Everyone*, 61. McShane states the emergent standard of living is “an aggregate of rates

services produced over certain time periods, and this will fluctuate given time lags, mistakes, and other factors. Lonergan relates the aggregate of rates of the emergence of the standard of living to the aggregate of rates of production of goods and services that enter the standard of living (point-to-point correspondence). In the movement from catching fish to producing processed food to its consumption, there are contributing enterprises that have rates of productive output, and these enterprises involve the internal use of labour, management, and equipment. To outline these relations of rates in a formula, Lonergan names the final product  $q_i$ , the enterprises involved in the process  $j$ , and the factors of production that the enterprises contribute, such as management, equipment, and labour, as  $k$ .

At the basic level of productive activity, there is a movement within the productive process, such as the movement from the fisher catching fish to the transitional sales to a fish plant and to the store.<sup>190</sup> There is the further movement involving the sale of the final product, which in this case is canned food. Hence, there are rates at which the initial producer (fisher) sells the product to the transitional enterprises that lead to the final product, and there are rates of activities of the factors of production (management, equipment, and labour) of those enterprises. These rates are linked with rates of payments for the production. These two aggregates of rates are

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at which goods and services move into the standard of living through purchase from the basic stage of the productive process.”

<sup>190</sup>Lonergan, *Macroeconomic Dynamics*, 64. Transitional sales will be related to the further discussion of classes of payments in the following section.

related and involve delays and time lags, and they depend on a steady flow of payments, so they vary.

Thus the rates of activities within the factors of production are closely related to the rates of production of the final product.<sup>191</sup> In other words, the rate of productive activity and exchange in the basic circuit is in equivalence with the rate of the emergent standard of living. This relationship is understood by Lonergan as a double summation and is symbolized as:  $q_i = \sum \sum q_{ijk}$ .<sup>192</sup> Lonergan explains that “the ultimate product is the summation of the contributions of several enterprises to the ultimate product; and the contribution of each enterprise is a summation of the contributions of each of its factors of production.”<sup>193</sup> The double summation formula (the sum of activities within enterprises and the sum of activities among enterprises leads to the final product) highlights the fact that the rates of basic productive activity internal to enterprises and the rate of basic productive activity between enterprises add up to the rate of the emergent standard of living. Increases in rates of basic productive activity, then, lead to

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<sup>191</sup>McShane, *Economics for Everyone*, 64.

<sup>192</sup>Lonergan, *Macroeconomic Dynamics*, 30. The Greek symbol  $\Sigma$  stands for S (summation). McShane discusses this in *Economics for Everyone*, 77, stating, “the rate of consumption, at any level, has the form of a double summation of the activities that went towards the product consumed: activities of enterprises drawing on factors of production and moving the product towards completion.”

<sup>193</sup>Lonergan, *Macroeconomic Dynamics*, 30. This relationship of double summation between the final product and the factors of production of enterprise is important in the later discussion of rates of payments and turnover frequency. See sections 2.3 and 2.6.

increases in rates of the emergent standard of living. This relationship allows for an understanding of what happens in the movement of basic productive activity. Surplus levels of productive activity function similarly, except that, on their own, they do not affect a standard of living. The rates of activities within and among surplus enterprises lead to equivalent rates of emergence of a final product. The result of consumption of the final product by lower surplus levels, or by the basic level, is the acceleration of the lower level productive activities.

Lonergan distinguishes between short-term and long-term accelerations in productive activity.<sup>194</sup> A short-term acceleration involves a shift in the pace of production, often through an effort to improve efficiency, for instance by changing management or labour practices or by improving equipment. This increases the rates of production. A long-term acceleration involves a more significant shift whereby the rates of production are increased. Accelerations can be due to an investment in more efficient capital equipment (widening). But more significant to long-term accelerations is the introduction of innovations in equipment and technologies (deepening).<sup>195</sup>

When the products of surplus innovation are introduced into the basic circuit,

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<sup>194</sup>Lonergan, *Macroeconomic Dynamics*, 32.

<sup>195</sup>Lonergan, *For a New Political Economy*, 17-18. For Lonergan, widening expands productive capacity by “increasing the number and size of the existing units of production,” (for instance, building more of the same factories); deepening expands productive capacity by “increasing the efficiency of the existing units of production” (for instance, improving on previous technologies, through innovations). It is innovation that is the key to major accelerations of the circuits, which further allow for a rise in the standard of living. See also, McShane, *Economics for Everyone*, 66.

there occurs a consequent change in the basic level of production and with that change comes a further shift in the emergent standard of living. Short-term accelerations can occur at any level, but the effect of short-term accelerations in higher surplus levels of activity is a long-term acceleration in the lower levels. However, this only happens after a lag-period.<sup>196</sup> It is very important to note that in order for production to accelerate, there must be investments of money—for instance, by way of credit financing—along with efficiency measures and/or innovations. The accelerated productive activity, then, requires accelerated rates of money circulating, accelerated rates of payments for products, and increased payments in wages as labour is needed to produce more goods and services more quickly.

If managed well, the movement from short-term accelerations on higher levels to successive long-term accelerations will bring about the eventual rise of a standard of living. This movement or flow of productive activity (along with the circulation of payments) is identified by Lonergan as a cycle or wave-like movement.<sup>197</sup> Lonergan distinguishes the “pure cycle” from the “trade cycle,” which occurs when the accelerations are not well managed.<sup>198</sup> When the pure cycle is understood, the cycle of short-term and long-term accelerations can be managed so that they move through successive stages of surplus and basic production, with time lags, and lead to a rise in

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<sup>196</sup>Lonergan, *Macroeconomic Dynamics*, 33.

<sup>197</sup>Lonergan, *Macroeconomic Dynamics*, 34.

<sup>198</sup>Lonergan, *Macroeconomic Dynamics*, 35.

the standard of living. This pure cycle does not involve slumps, recessions, or crashes. With the trade cycle, there are booms and slumps and negative accelerations. For Lonergan, the trade cycle is not part of the normative rhythms of long-term accelerations, but is due to an inability to understand and work with these pure-cycle rhythms.<sup>199</sup>

### 2.3 Basic and Surplus Exchanges: Circulations of Payments

As has been noted, Lonergan's explanatory macroeconomic analysis identifies the relations of productive activities as part of an exchange economy: goods and services are produced and exchanged for money.<sup>200</sup> As there are two distinct flows of productive activity, so there are two flows or circulations of money that are interdependent with the productive flows. This interdependence is important to note, as the productive process cannot function without financing by way of payments or credit, and during an expansion of productive activity, the financing must keep pace with the accelerated activity until it has reached its capacity. If this does not happen, the

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<sup>199</sup>Lonergan, *Macroeconomic Dynamics*, 36-38. Lonergan states, "A pure cycle of the productive process is a matter, simply, of the surplus stage accelerating more rapidly than the basic, then the basic stage accelerating more rapidly than the surplus"(38). Lonergan provides a series of formulas to illustrate symbolically the pure cycle. It is also illustrated in McShane, *Economics for Everyone*, 68-70.

<sup>200</sup>Lonergan, *For a New Political Economy*, 34. Lonergan states, "An exchange economy is an attempt to give a continuously satisfactory answer to the continuously shifting question, *Who*, among millions of persons, is to perform *which*, among millions of tasks, in return for *what*, among millions of possible rewards?"

acceleration will be prematurely cut off, and the benefits will not be felt by way of a rise in the standard of living. The interdependence of the flows of productive activities and flows of payments outlines the unique way in which Lonergan addresses the issues of production and the distribution of wealth in an economy.

For my three dialogue partners in Canadian Catholic social ethics, the issue of the equitable distribution of wealth is key to economic justice. The bishops called for full employment in “Ethical Reflections.” Baum spoke of the empowerment of the third sector through the social economy. Coady supported cooperatively-owned local business. For Lonergan, the ongoing improvement of the standard of living requires intelligent management of the flows of the two circuits. The distribution of wealth involves investment in worthwhile surplus innovations and increasing investment in surplus expansions. This expansion requires increasing employment at the surplus level. The transition to the basic expansion involves investment in basic production and increased employment. However, along with increased employment in some sectors, there is also the increased liberation of some to the cultural activities that allow for increased creativity and innovation and collaboration. The dynamism of the circuits requires innovation in production and employment that is managed in accordance with the phases of the circuits. It goes beyond the typical demand-side (employment) versus supply-side (production) debate, which neither distinguishes circuits nor accounts for their dynamism. In outlining these relationships, Lonergan’s analysis provides tools for making ethical decisions to move the economy toward improving the standard of living

for all.

### 2.3.1 Classes of Payments

Before discussing rates of payments, Lonergan makes the distinction between different kinds or classes of payments. He distinguishes between operative and redistributive exchanges, and between different classes of operative payments in the basic and surplus circuits.<sup>201</sup> With the basic and surplus productive activities, each level is consumer to the next highest level. So, the higher level surplus goods and services are bought by the lower, the lowest level surplus goods and services are bought by the basic level, then the basic level goods and services enter the emergent standard of living. To illustrate, wire and tools are bought by lobster trap producers (surplus); traps are bought by fishers as a means of production (surplus), and they are used to catch lobsters; lobsters are bought by stores and consumers (basic); and the lobsters are then consumed (standard of living). In each of these instances money is exchanged for goods or services. They are operative exchanges.

However, there are activities in which money is exchanged for goods and services, but the activities are not strictly part of the current production process. For instance, a person decides to sell her car to someone for private use. The car left the productive process when the final payment was made. In the second sale, there is merely a transfer of ownership, which is not a constitutive part of the current production

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<sup>201</sup>Lonergan, *Macroeconomic Dynamics*, 40-41.

process. This is a redistributive exchange.<sup>202</sup> There may be operative exchanges connected with redistributive exchanges, such as payment for the services of a salesperson. Also, resold goods might re-enter the productive process, for instance if a used car is bought for use by a delivery business. However, the distinction between operative and redistributive exchanges is important in measuring the circulation of payments. If payments that are redistributive are measured as operative, then there is an overstated accounting of current productive activity and exchange, which will distort assessments of how well or poorly an economy is functioning.

For Lonergan, operative exchanges can be basic or surplus, and there are three types of operative payments in each level of productive activity. It is helpful to keep in mind the levels of productive activities, from higher to lower surplus levels, to the basic level, and to the emergent standard of living. The lower levels are consumers of the higher level goods and services, and the consumption takes the form of a double summation; that is, the rates of consumption of the final products are in equivalence with aggregates of rates of production of contributing enterprises and the factors of production of those given enterprises. With this in mind, it is easier to get a sense of the three types of operative payments: initial, transitional, and final.<sup>203</sup>

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<sup>202</sup>Lonergan, *Macroeconomic Dynamics*, 41. See also, McShane, *Economics for Everyone*, 78. There are many different kinds of activities that might be classified as redistributive, such as real estate sales, bank loans, and buying and selling of stocks and shares. These will be discussed further in section 2.4.

<sup>203</sup>Lonergan, *Macroeconomic Dynamics*, 42.

First, initial operative payments are those made by an enterprise to the factors of production of the enterprise. These may be payments of wages to employees, rent to landowners, or profits toward reinvestment. They are the payments of the first summation in the double summation formula.<sup>204</sup> Then, there are payments between enterprises for the incomplete goods and services contributing to the final product. These are transitional payments, and they are part of the process of the second summation. Finally, there are payments whereby goods and services are sold as final products. These are final operative payments, and with these the product leaves the productive process. They involve the completion of the second summation. So, the cost of the final product includes the cost of the initial payments to factors of production plus the transitional payments among enterprises. The final payment is what gets calculated as income in order to accurately account for the circulation of payments.

Initial operative payments involve two types of outlay payments: producer expenses for wages and producer expenses for maintenance, rent, and capital equipment. Both types of outlay are always calculated as producer expenses. But, only final operative payments are counted as producer income, not transitional payments. This is not because transitional payments do not involve the real exchange of money for goods or services, but rather because the final payment by the consumer (income) is equal to the initial payments made by enterprises for basic or surplus outlay (wages and rent, maintenance, capital equipment) and transitional payments. So, the transitional

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<sup>204</sup>Lonergan, *Macroeconomic Dynamics*, 42.

payments are already calculated in the measurement of the final payment. The flow of money from transitional payments is already measured as part of basic or surplus expenditure, or the circulation of money in the basic or surplus circuit.<sup>205</sup> So, in effect, if transitional payments are measured as additional payments in the circulation of money in the circuits, they will be measured twice, giving a false account of the actual performance of the economy.<sup>206</sup>

#### 2.4 Redistributive Exchanges

The distinction between operative and redistributive exchanges can be challenging. Lonergan identifies four instances in which the line is not easy to distinguish. He identifies, “the resale of durable basic products, the resale of durable surplus products, such resales when there is an organized second-hand trade, and financial operations.”<sup>207</sup>

In the first case, a durable basic product, such as a house, may be built and sold to a buyer whereby the sale is a final operative payment that takes the house out of the

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<sup>205</sup>This understanding of transitional payments is well illustrated by Anderson and McShane in Appendix A of *Beyond Establishment Economics*, 233-235.

<sup>206</sup>Anderson and McShane, *Beyond Establishment Economics*, 43. Anderson and McShane state, “it is crucial to accurately measure how much money is moving or flowing in each circuit of payments—the basic circuit of payments and the surplus circuit of payments—and to measure how much money is leaving or entering each circuit during particular time intervals. Measuring the movement or flow of money in an economy is key to understanding what is going on.”

<sup>207</sup>Lonergan, *Macroeconomic Dynamics*, 43.

productive process. If the house is resold by the owner to another person, the resale is not part of the current productive process; it is redistributive. This occurs regularly in real estate sales, although there may be basic or surplus payments made by way of service payments to real estate agents, or interest payments for loans from banks.

In the second case, a durable surplus product, such as a boat for commercial use, might be built and sold to a buyer whereby the sale is a final operative payment that takes the boat out of the productive process of boat building. The resale of the boat by the commercial owner to another fisher for recreational or commercial use is a redistributive payment. So, it is out of the productive process of boat-building, although it may still be part of the productive process of fishing.

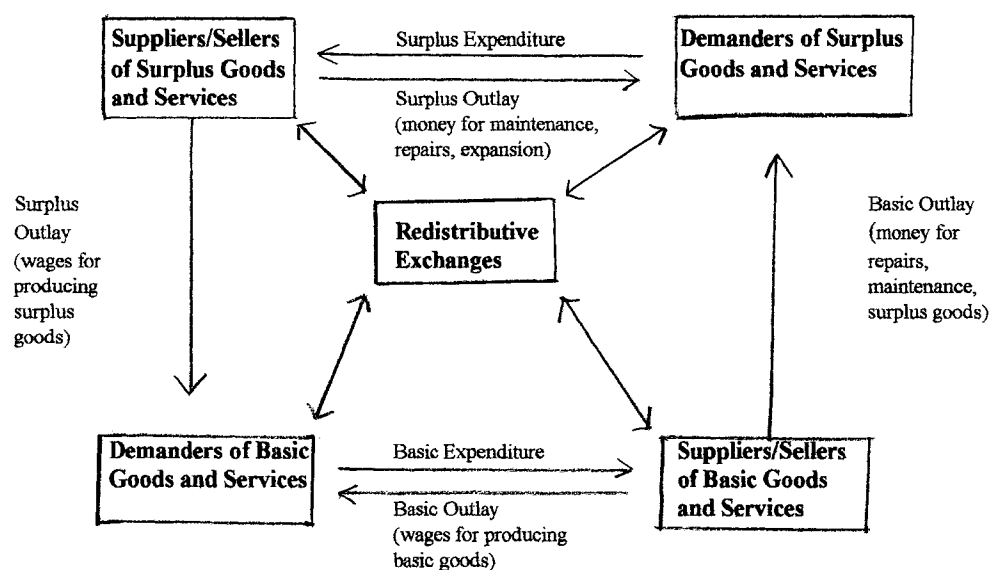
In the third case, organized second-hand trades, such as used bookstores or used parts shops, deal with products that have left the current productive process upon the original final payment. However, in second-hand trades there is a portion of the cost of the product that goes to owners and salespersons for services. These services are part of the productive process, and are measured as operative payments.

Finally, financial operations, such as bank services or the sale of shares on the stock exchange, involve an exchange of money for money. It is clearly a redistributive exchange when the amounts are equal. Money is simply being redistributed from one source to another and back. When the exchange is of one amount that is greater than the other, such as a bank loan where interest is paid, the additional amount (interest) is a

payment for services and is operative, and the principle is redistributive.<sup>208</sup> The value of shares being bought and sold on the stock exchange varies according to the demand for shares of a particular company or a specific kind of shares; it does not necessarily reflect the actual performance of the company, as the Enron scandal has shown, given that share value may be based on an artificial or unreal estimation of projected performance.

## 2.5 Diagram of Basic, Surplus, and Redistributive Exchanges

Due to its concrete orientation, I will rely on the version identified in Anderson and McShane, *Beyond Establishment Economics*:<sup>209</sup>



<sup>208</sup>Lonergan, *Macroeconomic Dynamics*, 44-45.

<sup>209</sup>See Anderson and McShane, *Beyond Establishment Economics*, 111; see also, Patrick H. Byrne, "Appendix: History of the Diagram, 1944-1998," in *Macroeconomic Dynamics*, 177-202.

The diagram that Lonergan uses to outline the basic, surplus, and redistributive flows of money was developed from the initial manuscript to the later version and beyond with the efforts of Lonergan scholars. In the discussion so far, I have been pointing out some of the key ideas in Lonergan's macroeconomic analysis by focussing concretely on the distinction between basic and surplus levels of production and the concomitant relationship between rates of productive activities and the circulation of payments. I will continue with the concrete illustrations to draw out further the relationships of rates of production and payments, particularly with a view to identifying the role of crossover payments, or payments flowing to and from basic and surplus levels.

In following a transaction at the basic level, for instance the sale of fish by a shop to a household consumer, it is possible to identify several uses of money in the transaction.<sup>210</sup> First, the money is set aside by the consumer and is used to demand the product (basic demand). Second, the money is used to buy the product (basic expenditure). Third, the money is received by the business in exchange for the product (basic receipt). Beyond this transaction, a portion of the basic receipts of the business are used as wages (basic outlay) and so are used again to demand basic goods and

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<sup>210</sup>These transactions are illustrated concretely in Anderson and McShane, *Beyond Establishment Economics*, 29-45.

services. So, the shop has its own basic outlay that enters the flow of money in the basic circuit.

As there is money set aside by the business for basic expenditures, which is the basic outlay of the business, mainly by way of wages, there is also money set aside by the business for surplus expenditures. It might be that the fish shop needs a new refrigerator to store fish, or a new tank to hold live lobsters. These are surplus expenses, since these products are not themselves consumed as basic products, but they contribute in an ongoing way to the production of basic products. So, the money that goes from the business to pay for a new refrigerator to store fish moves from the basic to the surplus circuit: it is a crossover payment. This money used as a surplus payment is money set aside by the business from its receipts and used to demand a surplus product (basic outlay becomes surplus demand). Money is used to buy the refrigerator (surplus expenditure). The business that makes refrigerators receives the money as income (surplus receipts).

As with the basic circuit, the surplus receipts are used in two ways. Some of the money from surplus receipts for the business pays for surplus expenses (surplus outlay), such as the replacement of tools or machinery that are used to make refrigerators or other products the business makes. Also, some of the money from the surplus receipts goes to the basic circuit. This is done in the form of wages. It is then used for the purchase of basic goods and services (surplus outlay becomes basic demand). This movement of money is a crossover payment from the surplus to the basic circuit.

It is important to keep track of crossover payments moving from the basic circuit to the surplus circuit and from surplus to basic, according to Lonergan, as these crossovers must balance.<sup>211</sup> In fact, the balancing of the crossovers is key to not draining one circuit for the sake of the other, and it is key to managing inflation even when incomes increase during a surplus expansion. As rates of production and payments accelerate, it is important to keep track of the money moving from the basic circuit by way of demand for surplus products or by way of savings. It is also important to keep track of payments of wages going from the surplus to the basic circuit.

There are also redistributive exchanges that contribute to the circulation of payments. Products that have left the productive process (for instance, those that were already sold and paid for), such as real estate or second-hand goods, involve the redistribution of money as part of the transfer of ownership. Also, there are loans and the purchase of shares, which involve the redistribution of money. These transactions often involve productive activities, such as the services of real estate agents, or of bank officers. The money involved in these transactions is measured in its functions as initial or final payments.

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<sup>211</sup>Lonergan, *Macroeconomic Dynamics*, 69. Lonergan states, “In fact, the dynamic equilibrium of the system requires the crossovers to balance: as much money as comes to basic demand from surplus outlay, so much has to go from surplus demand from basic outlay. On that condition continuity is assured: both surplus supply and basic supply will be able to repeat their previous performance without drawing upon reserves. On the other hand, when the crossovers do not balance, then one circuit is being drained of its resources by the other; and if the lack of balance is sustained, then the firms on the losing side will contract and eventually go out of business.”

The redistributive function is important, as well, in its financing role. Savings may be set aside by businesses or consumers and given to financing institutions, like banks, to hold. This money, along with accumulated interest, can be used by banks to provide funding by way of credit or loans for businesses or individuals. This function allows for the initial and increasing support for innovations that lead to expansions.

## **2.6 The Phases of Economic Activity and the Pure Cycle**

Lonergeran's macroeconomic dynamic analysis explains variations in the circulations of productive activity and payments in accordance with different phases of productive activity. In his earlier economic writing, Lonergan outlines four phases of the rhythms of economic activity.<sup>212</sup> In the static phase, the aggregate basic and aggregate surplus productive activities are constant with no new big innovations or expansions of activity. In the capitalist phase, there is a major innovation, or series of innovations, that leads to a surplus expansion without an expansion in the basic circuit (such as, the invention of ploughs before they became available for use in farming). In the material phase, the surplus circuit slows down to a constant rate of production, with the pure surplus income (profit) reducing to zero, and the acceleration of the ordinary basic circuit (raising the standard of living). Finally, in the cultural phase, as with the material phase, the surplus circuit is constant, with the pure surplus income reducing to zero. The

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<sup>212</sup>Lonergeran, *For a New Political Economy*, 23-26.

difference here, however, is that there is an acceleration of the overhead basic circuit (providing the cultural superstructure).<sup>213</sup>

In his later work, Lonergan discusses the phases in terms of minor and major basic and surplus expansions, with the major surplus expansion having an initial phase, a transitional phase, and a closing phase.<sup>214</sup> Lonergan begins the later discussion of phases by talking about the static phase, wherein there are no major innovations, and productive activity in both circuits is moving at a constant rate.<sup>215</sup> There might be developments and innovations that occur at the basic level bringing about a minor expansion, such as increased employment or use of productive capacity. This may lead to a minor expansion in surplus activity, also involving increased use of capacity in productivity and fuller employment at one or more surplus levels. With these minor expansions, the economy is moving just beyond a constant rate of production, but there is no major disruption in activities.

There then arise major surplus expansions, and these are disruptive in the sense that they lead to a major shift in economic activity. The major surplus expansions are initiated with a surplus acceleration due to an innovation, or series of innovations. An

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<sup>213</sup>In his earlier writings, Lonergan distinguishes between ordinary and overhead basic productive activity, with the ordinary referring to the material expansion and the overhead referring to the cultural expansion. Overhead in this instance is not to be confused with overhead costs. See Lonergan, *For a New Political Economy*, 23-26.

<sup>214</sup>Lonergan, *Macroeconomic Dynamics*, 75-80.

<sup>215</sup>Lonergan, *Macroeconomic Dynamics*, 76.

interesting example is the innovations that have been part of the computer industry. Not only have computers changed the way that we work (and play), they have generated levels upon levels of surplus activity involving computer technology in all industries. The innovation that takes place in the surplus productive activity has corresponding financial needs,<sup>216</sup> so there is a need for an increase of money in the surplus circuit to support the development of innovations that bring about a major surplus expansion. As the initial innovations are given financial support and more businesses get in on the growth, more innovations and more financial activity result. For new and older businesses that want to get in on the expansion, there is a need for financial support through loans, or other kinds of funds, by way of the redistributive circuit. This support acts as a form of credit for businesses so that the surplus expansion can reach its full capacity.

With the expansion of the surplus level of production due to an innovation or a series of innovations, and with the increase of money in the surplus circuit that must be invested in maintaining this expansion, there will follow a rise in basic income, as the increased productivity and money flow lead to increased money going to wages that crossover to the basic circuit to become basic demand. At this point there are decisions that must be made regarding how the increased basic income is to be used. These decisions will be affected by the presence or lack of understanding of the levels of productive activities, the financial circuit, and the flows of money.

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<sup>216</sup>McShane, *Economics for Everyone*, 98.

The issue is how to allow the surplus expansion to reach its full actualization without either disrupting the surplus expansion or causing excessive inflation in the basic circuit. This requires an understanding that the decision to accelerate the spending of income that crosses over from the surplus to the basic circuit *on basic goods or services* can cut off the surplus expansion. When the surplus expansion is in course, there is a higher production of surplus goods and a rise in basic income due to increased wages. However, there is not a higher production in basic goods and services until after the surplus expansion is well underway. If the money from the surplus level leads to an increase of spending on the basic level, then basic prices will rise (inflation), given high demand and low supply. The key factor in maintaining the surplus expansion is allowing for the increased basic income to be reinvested in the surplus expansion at this point in time, rather than being spent on basic production.<sup>217</sup> This reinvested income allows for a continual flow of money for the surplus circuit and ensures that the crossover incomes are balanced. The result is that the surplus circuit is not drained.

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<sup>217</sup>There is some question among Lonergan scholars about who makes the decision to save and reinvest in the surplus expansion—basic demand or basic supply. In the first instance, basic demand would save rather than spending increased wages on basic goods and services. In the second instance, basic demand would spend, prices would increase, but the increased profit to basic supply would be redistributed to the surplus expansion rather than being spent immediately on basic production. Alternatively, both may be the case. There is agreement, however, that the increased basic income must be reinvested in the surplus expansion until its capacity is reached, and the crossovers between the circuits must balance in order to prevent excessive inflation. For arguments regarding these positions, see Lonergan, *For a New Political Economy*, 81, 86, 287; Lonergan, *Macroeconomic Dynamics*, 146-147, 150; Anderson and McShane, *Beyond Establishment Economics*, 128; Byrne, “Economic Transformations,” in *Religion and Culture*, 336.

One of the ways of avoiding cutting off the surplus expansion is to reinvest the additional income entering the basic circuit into the surplus circuit through the redistributive function.<sup>218</sup> This seems to go against common sense: when there is an increase in basic income, we assume that it is right and even wise to spend it in the basic circuit. However, there is a need for a collective understanding of a long-term investment in the economy that takes into account the lifespan of phases. This means that the period of the surplus expansion will be what Lonergan refers to as “anti-egalitarian.”<sup>219</sup> So, while the surplus expansion is underway, there must be a period when money that could be going to the basic level to improve the standard of living is being reinvested in the surplus level. The reason for this is that the fuller the surplus expansion, the fuller the eventual basic expansion, if the phases and circuits are understood and managed correctly. Cutting off the surplus expansion too soon means that the long term rise in basic production and in the standard of living will be cut short as well.

After the height of its acceleration, there will be a period when the surplus rate of expansion tapers off or slows down and the surplus circuit settles into a constant rate. This is a higher constant rate than before the expansion, so it is different from a slump or recession. At this point the full benefits of the surplus expansion start being

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<sup>218</sup>Anderson and McShane, *Beyond Establishment Economics*, 128. The basic income goes into savings in this period.

<sup>219</sup>See note 198 in Lonergan, *Macroeconomic Dynamics*, 141; Lonergan, *For a New Political Economy*, 286-289.

experienced at the basic level. The additional income that was saved and reinvested begins to be spent on a basic expansion, as the surplus goods and services begin to be used to accelerate basic production and increase jobs in the basic circuit. Also, the higher rate of crossover income to the basic circuit via surplus wages allows increased production and spending on basic goods and services. There will be more ordinary basic goods and services and the standard of living will gradually improve. But there will also be the opportunity to invest in the cultural superstructure, so that schools, arts, recreation, and so on, will be able to benefit. This has the effect of raising the quality of life for more people in having access to cultural activities, as well as to increased employment. Further, it has the effect of allowing the emergence of further creativity, insights, and innovations that are the source of economic expansion and acceleration. As Lonergan states, “(society) must not direct its main effort to the ordinary final product of standard of living but to the overhead final product of cultural implements. It must not glory in its widening, in adding industry to industry, and feeding the soul of man with an abundant demand for labor. It must glory in its deepening, in the pure deepening that adds to aggregate leisure to liberate many entirely and all increasingly to the field of cultural activities.”<sup>220</sup>

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<sup>220</sup>Lonergan, *For a New Political Economy*, 20. This point is a key indicator that Lonergan’s emphasis on expansion is not the same as the classical or Marxist focus on continual growth or industrial expansion. It is an increased focus on innovation and collaboration that allows for richer social and cultural networks that can communally direct its efforts at improving the standard of living. Lonergan states further, “The static phase is a somber world for men brought up on the strong drink of expansion. They have to be cured of their appetite for making more and more money that they may have

The basic expansion phase is “egalitarian,” in that the benefits of the surplus expansion, after a lag period, are felt at the basic level with an increase in the standard of living and cultural activities. There is a need here for decisions that are similar to those regarding the surplus expansion, in that the basic expansion can be cut off if not managed well. The most important obstacle to this transition is the fear arising in business when an acceleration of surplus activity slows down and investment tapers off. The assumption is that the economy is in a crisis. This fear arises when business and consumers are operating without a sense of what is happening in the circuits and phases. With the slow-down of the surplus expansion, there will be a reaction from business and finance to keep supplying money to the surplus circuits; money that should now be going to the basic level of production.<sup>221</sup> Cutting off this crossover of money from surplus to basic will cut off the basic expansion. Businesses and consumers who have a sense of the circuits and phases will not panic with the tapering off of the surplus expansion to constant levels, as these constant levels are higher than before the surplus expansion and will act to allow for the full basic expansion, where basic incomes are spent on basic goods and services that raise the standard of living and cultural activities.

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more and more money to invest and so make more money and have more money to invest. They have to be fitted out with a mentality that will aim at and be content with a going concern and a standard of living. It is not an easy task to effect this change, for, as the Wise Man saith, the number of fools is infinite.” Lonergan, *For a New Political Economy*, 98.

<sup>221</sup>McShane, *Economics for Everyone*, 99. McShane calls this “the key problem of the modern economy.”

This long-term vision is what allows for further innovations that can lead to further surplus and basic expansions.

## **2.7 The Significance of Lonergan's Macroeconomic Analysis**

I have discussed the two flows of productive activities and the corresponding flows of payments, as well as the redistributive flow. I have noted that there is a need for an understanding of these flows and of the phases of productive activity in order for economies, communities, and societies to benefit fully from expansions due to innovations and to prevent the cut-off of expansions. A few key points emerge from this analysis that are important to the discussion of economics and social ethics. I will outline these points presently.

Lonergan's analysis highlights the functional distinction between two circuits of productive activity and circulations of payments. This is different from the typical economic model of one circuit of supply and demand between households and firms. The difference lies in the function of basic productive activity as producing a standard of living and the function of surplus levels of productive activity as producing goods and services that accelerate lower levels of activity and eventually raise the standard of living. Along with this distinction, it is essential to note that these activities do not happen automatically, as is assumed in classical capitalist analyses. The dynamism of the circuits, which is experienced in the shifting phases, must be intelligently directed by everyone with an understanding of what will achieve the good for all. This is a

fundamentally democratic, decentralized view that requires vast educational efforts.

Along with a recognition of the functional distinction between the circuits, Lonergan emphasizes the interdependent relationship between productive activity and the circulation of payments. For Lonergan, productive activity depends on a constant flow of payments, and in a surplus expansion the flow of money (payments or credit) must be increasing. The next chapter will address how the profit from the surplus expansion should function as a social dividend to allow for an eventual basic expansion. A key point is that this relationship of interdependence offers a unique view of the traditional discussions of production and distribution of wealth.

In mainstream discussions about economics and social ethics, the conversation tends to be divided between those who support the supply-side arguments and those who support the demand-side arguments. The assumption is that you either support the producer/business side of the economy or you support the consumer/labour side. The former position tends to be promoted by neo-liberal capitalist advocates and the latter position tends to be promoted by social democrats and socialists. Lonergan's position is that production and distribution issues are interdependent and cannot be dealt with separately. Further, his understanding is based on the two circuit dynamic and functional analysis, not on the single circuit model that does not address the dynamism of the relationship of production and distribution. For Lonergan, the rate of production is closely linked to the rates of operative payments. An expansion of production requires an expansion of payments and of money available through credit in order to support the

increased productive activity. Increases in money first go to the enterprise or industry and lead to an increase in wages for employees. However, the employees and the producers must be aware of the lifespan of phases and must act in accordance with that understanding. So, during a surplus expansion, both surplus and basic labour should hold off on demands for profits to go to wages until the capacity of the expansion is reached. Further, once the surplus expansion slows down, surplus enterprises should allow for the gradual shift of pure surplus income to expand the basic circuit and raise the standard of living. According to Lonergan, the rise in the standard of living requires *both* increased productive capacity and increased distribution through wages in relation to the phases of the circuits.

Lonergan's view of the interdependence of productive activity and distribution of wealth distinguishes him from both neo-liberal capitalist positions and from social democratic and socialist positions. As I will discuss further in the next chapter, a key flaw in the capitalist approach is that an emphasis on production or supply-side activity tends to lead to the assumption that surplus expansions need to be sustained indefinitely. This means that once a surplus expansion has reached its full capacity, rather than allowing for the shift to a basic expansion, business will often try to extend the surplus expansion "artificially" by relying on government support through subsidies or by finding external markets with which they can achieve a favourable balance of trade. In these instances, the full benefits of the surplus expansion are not felt in terms of a rise in the standard of living for all.

Similarly, the demand-side approach can cut short a surplus expansion with the demand that wage increases and basic productive increases take place before the full capacity of the surplus expansion is realized. This also has the effect of losing the full benefit of the eventual rise in the standard of living, as the surplus expansion required for the eventual basic expansion is not given investment support.

A further aspect of Lonergan's analysis relates to the social ethics discussion. For Lonergan, ethical decisions are made regarding the economy when the economic order is understood. Further, the dynamism of the circuits and phases of productive activity and payments make ethical demands, in that they require that certain decisions be made to direct the rhythms of the circuits. These decisions must be broadly democratic, requiring that all people involved in economic activity grasp the rhythms and grasp how to achieve the ultimate goal of a rising standard of living for all. This is a long-term vision that is democratic and community-based. It differs from the view that ethical principles must be applied to the economic order from outside and from the view that economics is value-free. As I will discuss in chapter four, Lonergan's economics is situated in a broader ethical framework, whereby the economic order functions to set the conditions for social and cultural orders that foster the higher values that in turn sustain the economic vision.

## **2.8 Concluding Remarks**

In this chapter, I have identified some of the key variables and relationships in Lonergan's macroeconomic analysis. I have discussed the distinction between the two circuits of productive activities and the concomitant relationship of these circuits and the flows of money. I have also discussed the redistributive activity and exchange. I then discussed the phases of productive activity and the relationships of these phases with the crossover of payments between the circuits. I highlighted the shifts in phases in terms of expansions, and I identified the importance of managing these expansions. Further, I indicated some of Lonergan's key points in the analysis, noting how his analysis differs from traditional views on economics and ethics.

In the next chapter, I will examine the more specific issue of profit and how profit functions in an economy. I will relate this function to the function of an economy in improving the standard of living of a community. This will lead to a later discussion of the relationship between profit and ethical decisions, relying on Lonergan's understanding of the structure of the good and the scale of values.

## **Chapter Three**

### **Lonergeran's View of Profit as Social Dividend**

#### **3.1 Introduction**

The previous chapter introduced the key ideas of Lonergan's macroeconomic analysis. I discussed the basic variables that Lonergan identifies in his analysis, and I outlined the relationship among the variables in an effort to highlight the dynamic flows of productive activity and the concomitant flows of money. I also indicated that for Lonergan, the dynamism of the pure cycle, the acceleration of, first, the surplus productive activity and, later, the basic productive activity, is a normative dynamism, but it is not automatic. It is normative in the sense that the dynamism of the circuits and their phases allow for an understanding of how economies work or do not work. Explanatory insights into economies are needed to ground ethical decision-making. These insights ground the ethical obligations that guide the democratic decisions of all people about economic activities. Economies are managed through ethical decision-making, and they can be managed well or poorly. For Lonergan, managing the dynamism of the pure cycle well means that the surplus and basic expansions are allowed to live out their full potential and serve their ultimate function of improving the standard of living for all members of the community. Managing the dynamism of the pure cycle poorly means cutting off the surplus and/or basic expansions prematurely so that the full benefits of innovations and accelerated productive activity will not be felt by all. This poor management can lead to the kind of booms and slumps that are

experienced in the “trade cycle,” where patterns of recession and depression become the norm and short-lived booms in productive activity benefit only a few.

The matter of managing the pure cycle leads to Lonergan’s discussion of profit and its various functions.<sup>222</sup> For Lonergan, profit can only be understood in the context of the dynamic relations between the two circuits that make up the economic order. The cycles of productive activity, their phases, and the flows of money and rates of payments that are necessary to and dependent on these activities and expansions are the key variables and relations. In this context, profit serves various specific social functions. In the present chapter, I will discuss Lonergan’s understanding of the functions of profit, and I will indicate some of the problems that arise when there is a failure to identify what profit is and what it should be doing at various points in the life cycle of an economy.

### **3.2 Circulation Analysis and the Pure Cycle**

In order to understand profit and its functions, it is helpful to go back to the discussion about the phases and expansions of basic and surplus productive activity. In distinguishing the surplus and basic flows of productive activity, Lonergan claims that the function of surplus activity is to accelerate basic activity, and the function of basic

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<sup>222</sup>Lonergan talks about profit as “pure surplus income,” as “net aggregate savings,” and as “social dividend.” See *For a New Political Economy*, 49-50, 88-93, and 292-301; see *Macroeconomic Dynamics*, 71-72, 84-85, 134-140, and 144-156.

activity is to provide and improve the standard of living.<sup>223</sup> This ultimate goal requires innovation in production and the transition of the phases to allow for equitable distribution. As Lonergan states, the basic stage can be defined as “the aggregate of rates of production of goods and services in process and in a point-to-point correspondence with elements in the emergent standard of living.”<sup>224</sup> So, rates of basic productive activity closely correspond to the rates of the emergent standard of living.

The surplus stage, or the series of surplus stages, involves “an aggregate of rates of production of goods and services in process and in a point-to-line or point-to-surface or higher correspondence with elements in the standard of living.”<sup>225</sup> This means that the goods and services of the surplus level do not enter directly into the standard of living, but they are used by the next lower productive level, and accelerate that level of production. The accelerations may be short-term or long-term. Short-term accelerations involve the more efficient use of existing capital equipment and resources, whereas long-term accelerations involve the innovation of new and more productive capital equipment, which provides the means for long-term acceleration at the next lower

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<sup>223</sup>Lonergan, *Macroeconomic Dynamics*, 28-31.

<sup>224</sup>Lonergan, *Macroeconomic Dynamics*, 29. An aggregate of rates means “so much every so often,” with rates varying over intervals of time; “in process” means that the goods and services are in production, they are neither potentialities of nature or materials and ideas nor are they finished, that is, sold products.

<sup>225</sup>Lonergan, *Macroeconomic Dynamics*, 32-33.

surplus stage, and ultimately at the basic stage and the emergent standard of living.<sup>226</sup>

The accelerations in basic and surplus productive activities depend on the relationship between productive activities and the flow or circulation of money, given that Lonergan's analysis is concerned with an exchange economy where products are bought and sold. The accelerations of productive activity, first, with the surplus production accelerating faster than the basic, and then, second, with the basic accelerating faster than the surplus, is what Lonergan calls the pure cycle.<sup>227</sup> The rhythms of productive activity are concomitant with rates of payments. There are eight key rates of payments—four for the basic circuit, and four for the surplus circuit. So there are basic and surplus expenditure, receipts, outlay, and income.<sup>228</sup> Money circulates when payments or transfers are made. However, money may also be held in reserve, and money held in reserve often has a purpose or function. The possible functions are basic and surplus supply and demand functions and the redistributive function.<sup>229</sup> So, money on its way from being basic income to being a basic expenditure is part of the basic demand function. Money on its way from being surplus receipts to surplus outlay is part of the surplus supply function.

As well as money moving and being held in the basic and surplus circuits, there

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<sup>226</sup>Lonergan, *Macroeconomic Dynamics*, 34-35.

<sup>227</sup>Lonergan, *Macroeconomic Dynamics*, 38.

<sup>228</sup>Lonergan, *Macroeconomic Dynamics* 46.

<sup>229</sup>Lonergan, *Macroeconomic Dynamics*, 48.

is money moving and being held between the circuits and in the redistributive function. There will be a crossover of payments between basic and surplus circuits when 1) money from the basic supply function moves to the surplus demand function to purchase such goods as equipment and tools; and 2) money from the surplus supply function moves to the basic demand function in the payment of wages. Further, there will be a movement of money from the basic and surplus circuits to the redistributive function and back when there are financial transactions, such as investment in stocks or bonds, cash or credit transfers through loans, or the transfer of ownership of items (such as cars, houses, and properties).

For Lonergan, the movement of money within and between the circuits, and between the circuits and the redistributive function, is related to basic and surplus productive activity in correlation with the turnover frequency and magnitude of productive activity.<sup>230</sup> Lonergan relates an acceleration of the circuit, basic or surplus, with the increased rate at which money moves from income by way of demand to expenditure to receipts to outlay and back to income. This, in turn, correlates with the increased rate of turnover in productive activity, so there is a correlation between the quantity and velocity of rates of payments (circulation of money) and the quantity and velocity of rates of production.<sup>231</sup> Different units of enterprise have different turnover magnitudes and frequencies, but they depend on the products of other enterprises, and

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<sup>230</sup>Lonergan, *Macroeconomic Dynamics*, 56.

<sup>231</sup>Lonergan, *Macroeconomic Dynamics*, 57.

on the payments for their products. There are often lags or gaps between the payments made for items needed for production and payments received for sold final products.<sup>232</sup> For Lonergan, this gap is filled by monetary circulating capital, which is transferred from the redistributive function to basic and surplus supply. The transfer of money from redistribution to the circuits is not normally made through basic or surplus demand, as this would have the immediate effect of shifts in prices (inflation).

The redistributive function is sustained by savings.<sup>233</sup> Money is put aside and held in banks, for instance as bonds, and banks invest money and extend credit, which is transferred to basic and surplus circuits. This is money that should accelerate the circulation of payments to support an increase in turnover frequency in a surplus or basic expansion. With the transfer of money and payments between and among the circuits and redistributive function, it is important to note that the crossovers between the basic and surplus circuits must balance. This means that money going from basic supply to surplus demand and from surplus supply to basic demand (and money moving between the circuits through the redistributive function) must be equivalent. If it does not balance, then one circuit will drain the other, causing the collapse of businesses in the drained circuit.<sup>234</sup>

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<sup>232</sup>Lonergan, *Macroeconomic Dynamics*, 62.

<sup>233</sup>Lonergan, *Macroeconomic Dynamics*, 70.

<sup>234</sup>Lonergan, *Macroeconomic Dynamics*, 69. Note the problem of the resistance by business to shifting from a surplus to a basic expansion when pure surplus income begins to reduce.

A balance of the crossovers of money between the circuits in a stationary state means that the productive activity is constant, and money is moving between the circuits at a constant rate. A minor basic expansion involves an increase in circulating capital (cash or credit to basic supply) when there is improvement or maintenance of capital equipment or more efficient management. There is some change in rates of production and payments, and the money crossing over from basic to surplus and surplus to basic circuits begins to increase.<sup>235</sup> This initiates a minor surplus expansion, where the surplus productive activity goes to maintaining and replacing capital equipment. Money is transferred from redistribution to surplus supply, and basic supply puts aside more money to invest.

The idea of investing money set aside for financing credit is important to these shifts. Savings set aside provide circulating capital for further productive activity. Cash or credit is transferred from the redistributive function to surplus supply in a major surplus expansion, to finance an innovation, idea, or plan for improved production. Business owners in basic supply might also invest directly in surplus supply by way of surplus demand (crossover) or indirectly by putting money aside in the redistributive function.<sup>236</sup> These decisions support the innovations that lead to a major surplus expansion. Initially, the major surplus expansion is focussed on improvements in surplus productive activities. Ultimately, however, the goal is the shift to a major basic

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<sup>235</sup>Lonergan, *Macroeconomic Dynamics*, 78.

<sup>236</sup>Lonergan, *Macroeconomic Dynamics*, 79.

expansion when newly innovated productive capacities are put to work to improve the standard of living for all members of the society. While this is the long-term goal, it does not take place until after a period of major surplus expansion which is the condition for the eventual major basic expansion.<sup>237</sup>

### 3.3 Expansions in the Surplus and Basic Circuits

In the shift from a minor basic to a minor surplus expansion, there is a shift in the circulation of money. Basic supply can afford to set aside money for investment through the redistributive function and/or to spend money directly as surplus demand to pay for such surplus needs as maintenance and equipment. In the minor basic expansion, existing productive activity is made more efficient, and there is a moderate increase in activity and a moderate increase in income for basic demand.<sup>238</sup> In the minor surplus expansion, productive activity in the surplus circuit is made more efficient and has its own moderate increases in activity. These increases depend on the availability of capital money flow invested in surplus supply. So there must be increased money from basic supply in payments for surplus products, but there must also be an increased transfer of cash or credit from the redistributive function, such as increased access to credit through

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<sup>237</sup>A surplus expansion is needed in order for the kinds of technologies, tools, and equipment that will eventually allow for an increase in production at the basic circuit, for instance the surplus innovation and production of plows allows for the increased production of agricultural goods, so that more families will have more access to food.

<sup>238</sup> Lonergan, *Macroeconomic Dynamics*, 79.

loans. The increased activity and investment due to a minor surplus expansion lead to higher income going to basic demand (in wages) and to higher prices given increased demand relative to supply. However, the costs of production are still moderate enough that basic and surplus supply (businesses) can take in more in payments (income) than they spend in expenses (outlay).<sup>239</sup>

The shift from a minor to a major surplus expansion involves increased investment in surplus productive activity by the redistributive function. The redistributive function needs the further support of increased savings. The adjustment of savings supports the redistributive function and allows for the credit to be invested in a surplus expansion. With a major surplus expansion, there will be an increase in income from wages that will crossover from surplus supply to basic demand.

At this point when the economy is in a transition from a minor to a major surplus expansion, decisions must be made so that the increased income is not yet spent on basic consumption or demand. This is because basic productive capacity has not yet increased as a consequence of surplus innovations, and increased basic demand will have the inflationary effect of raising prices. Hence, increased basic income must go to savings that, through redistribution, will be available to invest further in the major surplus expansion.<sup>240</sup> It is important to note that the diversion of basic income through basic supply to savings is not a drain on the income that is required for basic productive

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<sup>239</sup>Lonergan, *Macroeconomic Dynamics*, 79.

<sup>240</sup>Lonergan, *Macroeconomic Dynamics*, 135.

activity, such as that used for paying costs and wages. This income is the profit over and above the normal profit of payments received over expenditures.<sup>241</sup> It is also important to remember that the income that crosses over from surplus supply to basic demand by way of wages must be balanced with an equivalent amount going from the basic to the surplus circuit, otherwise the surplus expansion will be cut short.

A regular and increasing rate of savings is required so that more money will be available for investment in the major surplus expansion in order to allow for an eventual basic expansion.<sup>242</sup> Lower income groups are more likely to spend basic income on basic goods and services and not on savings to invest in surplus expansion. So, the increasing need for savings at this point requires that higher income groups, who do not need to spend more money on basic goods and services, will be in the position to use this increasing income by way of savings for investment in the surplus circuit. The increased investment in surplus production means that increased savings goes back to surplus supply, so that surplus production rises with the rise in the quantity of money in circulation.<sup>243</sup> If this does not happen, then the savings that are needed to invest in the

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<sup>241</sup>Lonergan, *Macroeconomic Dynamics*, 81, 132.

<sup>242</sup>Lonergan, *Macroeconomic Dynamics*, 119. Lonergan states, “it is the nature of a surplus expansion to prepare the way for a far greater basic expansion, for surplus activities stand to basic as a flow to a flow of flows. But a surplus expansion calls for saving, and a massive surplus expansion calls for massive saving. In contrast, the basic expansion calls for ever-increasing consumption. So, the practical wisdom cherished in the surplus expansion has to give way to a quite different type of practical wisdom in the basic expansion.”

<sup>243</sup>Lonergan, *Macroeconomic Dynamics*, 137.

surplus expansion will be kept in the basic circuit. This will result in the surplus expansion being cut off prematurely and a major basic expansion being prevented.<sup>244</sup>

If the surplus expansion is able to reach its capacity, then there will be a gradual transition to a major basic expansion. This transition must be managed through responsible decision-making. It could involve a lag period of a number of years, as the basic productive capacity has to expand after the expansion of surplus capacity through innovations. There is often resistance to this shift to the major basic expansion. In fact, Lonergan argues that the failure to manage this transition has been the primary failure of most capitalist economies.<sup>245</sup> This failure tends to be due to the fear that arises when the rates of growth in surplus industries begin to decline. The reaction to this decrease is the assumption that they are heading for decline by way of slumps or recessions. However, the shift to a major basic expansion does not involve a slump. It is merely a return to a constant rate of surplus production which is a higher constant rate than before the expansion. The experience of the loss of surplus profit by business is a misunderstanding of the proper goal of profit. That proper goal is not to maintain the salaries of CEOs or to increase revenues eternally; it is to facilitate the transition to a

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<sup>244</sup>Lonergan, *Macroeconomic Dynamics*, 135-138. Lonergan refers to the mechanism of correction when supply and demand adjust price levels, which has the effect of contracting or expanding the purchasing power of money income or of shifting the distribution of money income. The mechanism can fail to support the surplus expansion, however, if there is pressure to increase wages prematurely (by labour unions) and if credit is cut back, for instance, by increasing interest rates (by banks).

<sup>245</sup>Lonergan, *Macroeconomic Dynamics*, 82.

major basic expansion that will result in an increase in the standard of living for all people.

### 3.4 Profit and Its Functions in the Circuits

The fraction of surplus income that is set aside as a rate of saving to be invested in the surplus expansion, either directly or through the redistributive function, makes up the pure surplus income. Pure surplus income is the fraction of surplus income that emerges in a surplus expansion and goes toward furthering the surplus expansion to finance new fixed investment (surplus innovations).<sup>246</sup> It is the amount beyond what is required for basic expenditure to maintain the existing standard of living and beyond the surplus expenditure for maintenance and repair. Pure surplus income is an “aggregate profit,” or “an aggregate rate of returns upon capital investment,”<sup>247</sup> which is different from the “normal profit” of a business. Lonergan refers to constant normal profit as the amount of income received (accounts receivable) over the amount of expenses paid (accounts payable) in a stationary phase.<sup>248</sup> In a stationary phase, basic and surplus productive activities are at relatively constant rates, with no shifts in acceleration. Normal profit, then, tends to be set aside for future repairs. In a surplus expansion, the

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<sup>246</sup>Lonergan, *Macroeconomic Dynamics*, 146.

<sup>247</sup>Lonergan, *Macroeconomic Dynamics*, 146.

<sup>248</sup>Lonergan, *Macroeconomic Dynamics*, 81.

normal profit remains the same, but the excess amount from redirected rates of savings is the pure surplus income. It is not money that properly belongs to individual businesses, but it is a social dividend that accelerates the surplus expansion for the purpose of eventually shifting to a basic expansion and a rise in the standard of living for all.

For Lonergan, there is a significant link between pure surplus income and the new investment that expands an economy's ability to deliver an improved standard of living equitably to all people. "In fact, it (pure surplus income) is the monetary equivalent of the new fixed investment of an expansion: just as the production of new fixed investment is over-and-above all current consumption and replacement products, so pure surplus income is over-and-above all current consumption and replacement income; just as the products of new fixed investment emerge in cyclic fashion, so also does pure surplus income emerge in cyclic fashion."<sup>249</sup> So pure surplus income increases rapidly as economic activity moves from a stationary phase to a surplus expansion, and it decreases rapidly as economic activity moves from a surplus to a basic expansion.

In his earlier version of the economic analysis, Lonergan identified five causes of pure surplus income (what he then called "net surplus income"), whose key function is to be invested in the widening and deepening of surplus productive activities, leading to the widening and deepening of basic productive activities and a higher emergent

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<sup>249</sup>Lonergan, *Macroeconomic Dynamics*, 152-153. Lonergan claims that misunderstanding the significance of the relationship between pure surplus income and new fixed investment is the root of drawn out depression.

standard of living.<sup>250</sup> The first cause is an increase in “labour, industry, and commerce,” so that there is more employment, more productive activity, and more payments being made. Since there is increased employment at the surplus level, there is more money going to the basic circuit as wages. In order for the pure surplus income to increase, this money must be saved and diverted to the surplus circuit, rather than being spent on increased production of basic goods and services. This is because basic production is not yet able to meet increased demand, and the increased demand would have an inflationary effect on prices. And further, there is an ongoing and increasing need for savings to be invested in the surplus expansion if it is to reach its full capacity. So, acceptance of the increase in basic income is the second cause of pure surplus income, and understanding the need to save rather than spend this increase is the third cause.<sup>251</sup> This money that is set aside as savings will be diverted to the redistributive function, which must have the ability to use funds to invest regularly and increasingly in the surplus expansion. The capacity of finance by way of banking systems that allow for investments of cash and credit is the fourth cause of pure surplus income. Finally, the fifth cause is that there must be new ideas, new opportunities, and new enterprises in order to sustain a surplus expansion.

The causes of pure surplus income point to its functions, in that it increases as savings are diverted and credit is available to invest in the major surplus expansion,

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<sup>250</sup>Lonergan, *For a New Political Economy*, 89.

<sup>251</sup>Lonergan, *For a New Political Economy*, 90.

allowing for the expansion to accelerate, and it decreases as the full capacity of the expansion is reached and the shift to a major basic expansion is underway. So, profit from the major surplus expansion sets the conditions for surplus businesses to become sustainable at a higher level of performance than previous to the expansion, but it does not belong to the company or to the president or CEO. Further, this profit sets the conditions for the innovations of the surplus expansion eventually to accelerate the production capacity of the basic circuit. It is this basic expansion that allows for basic businesses to create the jobs and produce the goods and services that provide for a rise in the standard of living for all people. Therefore, this form of profit is properly a social dividend.

Understanding the causes and functions of pure surplus income involves understanding the cyclical patterns of basic and surplus productive activity. With the shift from a static state to a minor basic and minor surplus expansion, there is no pure surplus income. With a major surplus expansion, pure surplus income increases at an increasingly accelerating rate, as rates of saving are invested and rates of production accelerate increasingly. However, with the initiation of a major basic expansion (after a lag period) and the gradual decrease of surplus activity, pure surplus income also decreases gradually, so that eventually it reduces to zero again.<sup>252</sup>

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<sup>252</sup>Lonergan, *Macroeconomic Dynamics*, 153.

### 3.5 Mistaken Directions and the Misuse of Profits

For Lonergan, the dynamism of basic and surplus productive activities and flows of payments is normative. There is a regularity in the relationships of the circuits and flows.<sup>253</sup> As Lawrence states regarding normativity,

It is this lawfulness or regularity, as defining the intelligible relationships in phenomena perceived, that is referred to by the word ‘normative.’ Thus we can speak meaningfully and correctly of the law of falling bodies ‘32 feet per second per second,’ as being normative even if no body actually falls at that rate. Clearly, ‘normative’ in this sense does carry implications for arriving at value judgements, in the specific sense that it is a good thing to respect the normative natures of processes and things when it comes to perceiving and judging and deciding upon courses of action.<sup>254</sup>

This normativity concerns both the activities and flows within basic and surplus circuits, and the relations between the circuits. The phases of economic activity indicate patterns of growth and tapering off in the circuits and the relationship of these patterns to shifts

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<sup>253</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, lvi. Lawrence identifies Lonergan’s meaning of normative within an explanatory framework, whereby terms and relations are defined in relation to one another, and the regularity of the relations are understood in a general sense requiring further analysis of empirical data. Lonergan’s analysis is set within the framework of his understanding of the probabilities of emergence of recurrent schemes of economic activity, but these are conditioned by further natural and human schemes. (lx-lxi) There are parallels here with Jane Jacobs’ understanding of economies as ecologies, although her discussion lacks the theoretical framework. See Jacobs, *The Nature of Economies*. Jacobs’ work has been used to provide concrete insights and illustrations of some of key aspects of Lonergan’s work on economics and ethics. See, for instance, Frederick Lawrence, ed., *Ethics in Making a Living: The Jane Jacobs Conference*, Supplementary Issue of the Lonergan Workshop Journal, vol. 7 (Atlanta, GA: Scholars Press, 1989.) This volume includes papers from a week-long Lonergan Workshop at Boston College dedicated to discussing the complementary insights of Jacobs and Lonergan.

<sup>254</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, lvi.

in rates of payments and the circulation of money. This dynamic and heuristic analysis of economic activity and the circulation of money is quite distinct in the sense that it goes beyond the traditional static, single circuit understanding of economies and is based on the functional distinction between basic and surplus circuits and their relations, rather than less differentiated ideas about economic activity.<sup>255</sup> Insights into the normativity of the circuits and their rhythms ground the ethical decision-making about how best to manage these activities and rhythms, as they are not automatic. This requires a general, empirically-based analysis and a broad educational effort in order for the democratic management of economies.

The functional distinction and differentiation of productive circuits and rates of flows of payments is necessary to understand profit as pure surplus income that functions as a social dividend. Without this functional distinction in an explanatory framework, economic analyses are limited to vague distinctions and are subject to biases. As Lawrence states,

According to Lonergan, profit as coopted by bias systematically excludes an intelligible account of the 'social dividend' which would be the reasonable return on entrepreneurial activity that ramifies throughout the entire society (MD:ECA 133-44, 144-56). For the measure that it is unbiased, being an entrepreneur means taking initiative in improving the social and cultural order of a society in its provision of goods and services by transforming and exploiting the means of production. Accordingly, profit as the flow of an economy's resources for the sake of

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<sup>255</sup>Philip McShane has illustrated well the distinction between Lonergan's analysis and what he calls mainstream, or orthodox, economic theories and models. See McShane, *Economics for Everyone*, 15-38; for a more thorough contrast, see Anderson and McShane, *Beyond Establishment Economics*.

a major transformation and expansion of capital goods would be ‘pure surplus income.’<sup>256</sup>

For Lonergan, some of the mistaken directions that have been taken in economies and economic theories in the past several centuries have been due to the lack of an explanatory analysis of economic activity that accounts for differentiations and distinct functions, as well as a lack of understanding of how to respond to the different phases of economic activity and circulations of money. In his view, economic activity and flows of money need to be understood empirically and managed intelligently and democratically in order for the ultimate goal of an increasingly improved standard of living for all to be achieved. Consequently, all consumers and producers must make intelligent and responsible decisions in accordance with the dynamism of economic activities. Without an understanding of the dynamics of economic activities, even the best intentions can lead to and have led to policies and courses of action that have been disastrous.<sup>257</sup>

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<sup>256</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, lxiv.

<sup>257</sup>There are varying positions on which economic policies have been harmful and which have not been properly implemented. In his earlier work, Lonergan uses stronger language to talk of these mistaken directions: “Just as one might make a locomotive leap off the tracks to the right or to the left by blocking the steam conduits to the pistons on this side or on that, so the economic process can be wrecked by the stupidity of capital or by the stupidity of labour, or by the demand of high profits or high wages out of due season.” Lonergan, *For a New Political Economy*, 70.

### 3.5.1 Failing to Distinguish Normal Profit and Pure Surplus Income

There are several key mistaken directions that have been taken by economists, business people, financial institutions, and regulators. They are rooted, according to Lonergan, in the failure to distinguish normal profit from pure surplus income.<sup>258</sup> Normal profit is the relatively constant amount of income received over the amount of expenses paid in a stationary state or phase. Normal profit is set aside for use if there are needs for maintenance, replacement, or repairs of equipment.<sup>259</sup> With the shift to a major surplus expansion, the amount of profit increases, as investment in the surplus expansion leads to increased productive activity, increased surplus output for wages, and further investment in the surplus circuit. The excess of profit, over the normal profit, in a major surplus expansion is the pure surplus income. Pure surplus income only increases with a major surplus expansion; it reduces in the shift to a basic expansion, as decisions are made by consumers and business that the major surplus expansion has reached its full capacity. It then must decrease with the tapering off of the major surplus expansion and the shift to the major basic expansion. Finally, it reduces to zero as the economy reaches a steady stationary rate. If normal profit is not distinguished from pure surplus income, then the increased money, which is meant to finance the new innovations of the surplus expansion, is misused.

Failing to distinguish between normal profit and pure surplus income can result

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<sup>258</sup>Lonergan, *Macroeconomic Dynamics*, 81.

<sup>259</sup>McShane, *Economics for Everyone*, 102.

in a number of dysfunctions arising in the economy when income is misused. I will discuss four of these dysfunctions: 1) failure to invest in a major surplus expansion; 2) failure to invest in a major basic expansion; 3) misdirecting savings; and 4) misuse of profit in government controls and trade.

### 3.5.2 Misused Profit and the Major Surplus Expansion

The first dysfunction involves the failure to use pure surplus income as investment in new innovations, which leads to pure surplus income not being allowed to perform its proper function of financing the major surplus expansion. So, the innovations that are key to sustaining the expanding surplus activities are not being financially supported. This might be the result of a redirection of pure surplus income to personal income (such as increasing salaries for CEOs, executives, or employees), or it may be the result of increased basic income not being diverted back to the surplus circuit by way of savings.

The point is not that increasing personal income is out of the question, but personal income must be understood within the overall framework of the activities of the circuits and their phases. Rather than being spent on basic goods and services, as personal income tends to be during a major surplus expansion phase, the pure surplus income should be reinvested in the surplus expansion. This reinvestment allows for the expansion of surplus productive capacity, which eventually (after a time lag) will lead to

an expanded basic productive capacity and an improved standard of living for all.<sup>260</sup>

The redirection of pure surplus income away from this function leads to the major surplus expansion being cut off prematurely. This also results in inadequate investment money or technologies to sustain a major basic expansion. The consequence is that the ultimate goal of a rise in the standard of living will not take place in any significant manner, as a major surplus expansion is required in order for a major basic expansion to take place.

### 3.5.3 Misused Profit and the Major Basic Expansion

The more common problem with the failure to distinguish normal profit from pure surplus income occurs when the economy must make the transition to a major basic expansion once the major surplus expansion has reached its full capacity.<sup>261</sup> Often this

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<sup>260</sup>Lonergan, *Macroeconomic Dynamics*, 34, note 34. The editors state, “In the present context of Lonergan’s presentation of the surplus stage of the pure cycle of production, the point is that the new basis for overall production of the standard of living of the total economy brought about by the significant addition of more and/or new plant and equipment is to be exploited in the widening and deepening of the basic production that raises the standards of living of everyone, but especially of the workers (or, as he used to say in class, ‘of the widows and orphans’). The whole point of Lonergan’s analysis, then, is to emphasize what he also makes clear in the 1979 page...: ‘And now with the circuits distinguished, the crossover makes it manifest that it supplements the wages paid in the basic circuit, so that profits are not robbery [reference to Marx] and there is no need for the gifts of bank credit to supplement workers’ basic wages [reference to Douglas’ social credit].’”

<sup>261</sup>Lonergan, *Macroeconomic Dynamics*, 82. The full capacity of the major surplus expansion can be related to Lonergan’s discussion of the limits of what he calls a “long-term acceleration.” “With respect to a given field of natural resources and

transition is resisted by surplus enterprises in response to pressures to maintain higher share values on the stock market by maintaining continued growth.<sup>262</sup> Lonergan blames the failure to make this shift more on ignorance of the dynamics of economic activities than on greed, although greed can often come in to exploit this failure for personal gain. Consequently, once the major surplus expansion reaches a peak and starts to taper off, business people, financial institutions, and regulators read this shift as a recession, not as a normal shift in productive activities. So, they act to try to sustain the growth of activity that had been occurring, and hence artificially extend the major surplus expansion beyond its proper lifetime. The ultimate consequence is that the major basic expansion that would equitably distribute the fruits of an economy to a population is prevented or cut short.

It is no surprise that there tends to be some resistance to the shifts, either to the anti-egalitarian support of the major surplus expansion or to the egalitarian support of the major basic expansion. These respective shifts require responses that are contrary to

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population, and on the supposition of a given level of cultural, political, and technical development, there is a maximum rate of production for the process (of a long-term acceleration).” Lonergan, *Macroeconomic Dynamics*, 34. See above chapter 2, note 58. It is with an eye to these limits that Lonergan’s work can be related to discussions of sustainability, in that his analysis recognizes that economies have limits according to social and cultural levels of development of the region, but also according to the limits of the natural environmental processes with which economic activities are intimately related and depended upon.

<sup>262</sup> Lawrence refers to the resistance to shift to a major basic expansion as “the core of the socialist grievance against liberal capitalism,” Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, lxviii.

the commonsense assumptions of mainstream economic behaviour, whereby precepts around spending and saving do not make any distinction between productive circuits or phases. Lonergan was well aware of this resistance:

This is a harsh doctrine bidding producers to be content with decreasing profits and consumers to offset a rising market by curtailing consumption. But any other doctrine is illusory: an expansion of the secondary [surplus] circuit does not increase, here and now, the primary [basic] circuit; it means more work but not more real wages in the aggregate and so lower real wages on the average. Now this decrease in average real wages can be spread about by the inflation of consumer income, and the only alternative to the inflation is for the consumers who can do so to curtail their consumption and so save their money instead of raising price levels and so pass their money on to create a price spread and greater profits for producers. Inversely, the contraction of the secondary [surplus] circuit necessarily involves the contraction of surplus income, and the only function of Major Douglas's injection of Consumer Dividends is to create by inflation a pseudo surplus so that producers may enjoy a profit to which they are not entitled.<sup>263</sup>

This "doctrine" of basic consumers curtailing consumption during a major surplus expansion and surplus producers decreasing profits (pure surplus income) during a major basic expansion is based on the key insights of Lonergan's analysis: productive activity and circulation of payments involve two circuits; the crossover payments and outlay of these circuits must be balanced; and production and circulation of payments of

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<sup>263</sup>Lonergan, *For a New Political Economy*, 81. The reference to Major Douglas is to Clifford Douglas, who promoted the idea of social credit during the 1920s in Western Canada. Lonergan was sympathetic to the idea of consumer credit but noted that it would have an inflationary effect if there was not a measure to balance the crossover of income between circuits, such as through taxation. For more on Lonergan's view of social credit, see *For a New Political Economy*, 80-81; Lawrence, "Editors' Introduction," in *Macroeconomic Dynamics*, xxix. See also Lonergan, *Macroeconomic Dynamics*, 71-72, note 87, where Lonergan distinguishes his analysis from the Marxist and social credit views.

the circuits involve the phases of the pure cycle.

### 3.5.4 Profit and the Misdirection of Savings

In order for the major surplus and major basic expansions to take place in accordance with the phases of economic activities of the basic and surplus circuits, there need to be appropriate adjustments to rates of savings.<sup>264</sup> Adjustments of rates of savings will require an understanding of the need for increased money to invest in the surplus circuit during a major surplus expansion. It also requires an understanding that this increase of money will involve an anti-egalitarian shift of income that might have gone to basic spending. So, those with higher incomes due to the surplus expansion, rather than spending on basic products, will save their increased income and divert it to the redistributive function. Savings then are used to allow the redistributive function to provide investment money, by way of loans or other forms of credit, to further support the major surplus expansion. If savings are not sufficient, and increased basic income is being spent on basic products, then prices will rise, as basic production is still relatively low in relation to basic demand. The rise in prices will cause an adjustment to spending, as lower income groups will not be able to spend on basic products, and higher income groups will not need to spend. The key here, however, is that there must be increasing

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<sup>264</sup>Lonergan, *Macroeconomic Dynamics*, 133. Section 26, “The Cycle of Basic Income,” 133-144, and section 27, “The Cycle of Pure Surplus Income,” 144-156, discuss the adjustments of rates of savings. The editors note that Lonergan changed “rate of savings” to “social dividend” in the 1979 supplement version of section 26, however, they retained “rate of savings” from the 1944 version.

money in circulation in the surplus expansion as concomitant with increasing surplus productive activity.<sup>265</sup>

There can be some mistaken directions taken that prevent the adjustments to rates of savings needed for further investment in the major surplus expansion. The combination of rising prices, due to an increase in surplus production and basic wages (income), and increased profits by surplus businesses, can lead to a demand for increased wages for workers, for instance by labour unions. A premature demand for increased wages (before the major surplus expansion can reach its capacity) leads to forced savings by lower income groups. This is because increased wages have an inflationary effect when basic production has not yet increased its capacity. There is increased demand for basic production, but it cannot meet the demand. Prices, then, continue to increase, and lower income groups cannot afford to spend (forced savings).<sup>266</sup> As well, banks will respond to the rapid inflation by imposing an increase of interest rates on money and pulling back credit. However, increased access to credit and loans are essential for business to support the major surplus expansion. So, their withdrawal and the demand for higher wages can cut off the expansion.

### 3.5.5 The Misuse of Profit in Government Controls and Trade

There are a number of ways that business people, financial institutions, and

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<sup>265</sup>Lonergan, *Macroeconomic Dynamics*, 137.

<sup>266</sup>Lonergan, *Macroeconomic Dynamics*, 138.

regulators attempt to adjust economic activity in order to extend the major surplus expansion. Lonergan talks in particular about shifts in interest rates by banks, deficit spending by governments, and favourable balance of trade with exporting and importing countries.<sup>267</sup> These topics take us beyond the productive activities and circulations of payments of a closed economy, to an economy whose financing involves government controls and trading with other economies. Of course, government controls and trade are common to most economies, but without identifying how they enter into the productive activities of the circuits in their phases, there can arise confusion that can cut off or artificially extend expansions.

Governments are often responsible for distributing and redistributing income by way of forms of taxation, employment insurance, social assistance, and other social programs. They also add income to the circuits by way of employment through government funded services, such as health services, but these are largely financed by taxation. For the most part, government income added to or distributed throughout the circuits enters by way of the redistributive function (aside from direct wages) to the surplus or basic circuits. The key challenge, then, is to ensure that the money added or removed (taxation for redistribution) must not upset the balance of the crossovers. In

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<sup>267</sup>Lonergan, *Macroeconomic Dynamics*, 82. Lonergan states, “It remains that mistaken expectations generate a series of palliatives. The damage they do is large and multiform. It is removed only by retracing the mistaken steps of the past, and that promises to be a long, wearisome, and disheartening task,” and he goes on to discuss briefly, “the favorable balance of foreign trade, the colonial economy, the fate of the fatherland or the mother country, on armaments and wars, on unemployment, deficit spending, transfer payments, blocked investments, union exigences, and inflation.”

other words, it must not drain one circuit at the expense of the other. As well, it must be done with a sense of the fluctuations of the phases.

A common response is the call for an increase in corporate taxation for investment in social spending. It is important to recognize that this can have a self-defeating result if the taxation cuts off a surplus expansion in process or has an inflationary effect on the basic circuit due to the inability of production to meet demand. This is not to argue that taxation or social spending are harmful, but that they must make the distinctions between the circuits and phases in order to have the effects of improving the standard of living in the long run.<sup>268</sup>

Similarly, regarding the balance of trade, an understanding of the circuits and their phases is essential to allow an improved standard of living to emerge. The balance of trade involves the relative rates of exports to imports of trading economies. A favourable balance of trade is thought to indicate that one economy is exporting more than it is importing and so has a trade advantage. There are a number of problems that tend to arise in this perception. One problem is that exporting businesses may resist the slowdown of the surplus expansion by issuing layoffs, cutting wages, or pressuring for government protectionist measures to extend their expansion and further their profit. Another problem is that economies at a trade disadvantage may be pressured into adjusting for export. Economies at a trade disadvantage are vulnerable due to their

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<sup>268</sup>This discussion is taken up further in Anderson and McShane, *Beyond Establishment Economics*, 149-166.

reliance on the availability and prices of imported products. Also, this dependency may mean that they are not even able to finance their own domestic production, so they are forced to rely on imported surplus goods and services which are purchased with borrowed money. As a consequence, foreign debt accumulates, but the domestic productive activity is not strong enough to service the repayments, and it is still being directed to export production. This is the problem that many developing countries have faced in the past several decades, by way of unbalanced trade, government protectionist measures, and export-gearred conditions on loans.

This position is backed up by Anderson and McShane. They emphasize that a surplus expansion requires that:

a country should produce its own surplus goods and services and finance them with domestic credit. The additional money to promote a surplus expansion does not enter the surplus circuit if you import surplus goods, if you have foreign debt, or if foreign companies do the work. In the long run, perhaps the intelligent course of action is not to be so hasty to import excavators and tractors or to bring in foreign companies which direct their profits out of the domestic economy. Perhaps local equipment could be used to do the job or the skills needed to perform jobs could be learned by local people. Economic success would then be seen in terms of starting and cultivating local industries that are relevant to local problems rather than using the local economy as an outlet for the export business of another country or as part of an effort to make quick profits by exporting natural resources.<sup>269</sup>

### **3.6 Intelligent Management of Profit and Moral Choices**

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<sup>269</sup>Anderson and McShane, *Beyond Establishment Economics*, 192-193.

For Lonergan, a key part of the problem of mainstream economics regarding profit, and economic analyses in general, is the lack of an explanatory framework for understanding economic variables and their dynamic relations as an ethical rather than an automatic, mechanistic process.<sup>270</sup> Without an explanatory framework, such as that being offered in Lonergan's analysis, our understanding of complex economic realities is limited and often misguided. This has been the case in the understanding of profit. In mainstream liberal capitalism, profit is understood as a reward for economic or financial success; in Marxist socialist analysis, profit is the result of the exploitation of labour by capitalist owners.<sup>271</sup> In the first case, profit belongs to the business owners, the CEOs, and the shareholders, and it is up to them to decide how it might be distributed. In the

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<sup>270</sup>Lawrence, "Editors' Introduction," in *Macroeconomic Dynamics*, lxiii. Lawrence states, "Before Schumpeter, in his *Theory of Economic Development*, spoke of profit as a return to entrepreneurs as innovators in the dynamic economic process whose new ideas initiate an enlargement of the surplus production of plants and equipment, the late-nineteenth century economic tradition's development of marginal productivity regarded profit as merely a disequilibrium phenomenon that occurs only when monopoly is present. In either case, profits, either in the sense of the national accountant's labelling of the wages of management and supervisors, or in the sense of payments in excess of the opportunity costs of the factors of production, are understood as something automatic; they do not involve correct understanding and moral choice in terms of the relationships between surplus and basic circuits of money."

<sup>271</sup>Lonergan, *Macroeconomic Dynamics*, 33, note 34. The editors state, "Exploitation for Marx generally refers to the systemic relations of production that regularly cause the expropriation of the surplus part of the labor value produced by the workers so that it becomes the profits of the capitalists, while the workers' standard of living collectively approaches the mere subsistence level." Lonergan's response to this problem involved highlighting the importance of balancing the crossovers so that wages and the standard of living for all increase without extreme inflation or the collapse of surplus production.

second case, profit belongs to the workers, and the eventual ownership of the means of production by workers will allow for the proper distribution of wealth. As Lawrence states,

By and large, the main thing people agree upon when it comes to profit is the role it plays in motivating entrepreneurial activity. From the liberal-capitalist perspective of 'rugged individualism' profit is good. It embodies our culture's image of the successful and 'self-made' man that has survived the replacement of the entrepreneurial model of business by the managerial model with its CEOs and boards of directors. From the socialist perspective of an equally 'rugged collectivism' it is bad, because it embodies possessive individualism and a system of differential rights in which the 'haves' exploit the 'have-nots' and the rich few keep on getting richer and the many poor keep on getting poorer.<sup>272</sup>

For Lonergan, these views are inadequate, but not because he claims that productivity is wrong or increasing impoverishment is right. It is rather due to the commonsense (and not explanatory) orientation of these positions and their distortions due to bias.<sup>273</sup> The commonsense view of profit does not provide a distinction between normal profit and profit as pure surplus income. In fact, profit can only be understood as pure surplus income within the framework of a normative, explanatory analysis of dynamic relations between two economic circuits. Without this functional analysis, it is

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<sup>272</sup>Lawrence, Editors' Introduction," in *Macroeconomic Dynamics*, lxiv.

<sup>273</sup>Lawrence, "Editors' Introduction," in *Macroeconomic Dynamics*, lxiv. For a detailed discussion of Lonergan's view of bias, see *Insight: A Study of Human Understanding* (London: Darton, Longman, & Todd, and New York: Philosophical Library, 1957; Collected Works of Bernard Lonergan edition, Toronto: University of Toronto Press, 1992) chapters 6 and 7. For Lonergan, individual and group bias distort understanding with their concern for the interests of the individual or group and exclusion of relevant insights. The bias of common sense is an exclusion of long-term, theoretical understanding by short-term, common sense understanding.

impossible to understand how profit as pure surplus income emerges and how it functions as a social dividend. Consequently, the management of the circuits becomes a guessing game.<sup>274</sup> Along with the turn away from the long-term thinking of an explanatory analysis, these perspectives fall victim to the biases of individual and group egoism, so that the well-being of all people is not met.

Profit, then, in its ordinary sense, exceeds expenses and allows for businesses to set aside money that eventually would be needed for future repairs, maintenance, and replacements of equipment. Another kind of profit emerges, however, when an economy moves into a major surplus expansion. The profit of pure surplus income rises as savings are increasingly diverted to invest in the new innovation or series of innovations of the surplus expansion. This increased investment leads to a growth in surplus productive activity and to a growth in surplus wages. The decisions about how the rise in wages is used is key to the lifespan of the surplus expansion. Decisions to use the rise in wages to spend on the basic level would have an inflationary result, as basic productive capacity would not yet have felt the impact of the surplus expansion. Further, the surplus expansion would not have the needed support of savings for investment, so it would be cut off. In this instance, the full benefit of a surplus expansion would not be achieved and the shift to a major basic expansion would not take place.

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<sup>274</sup>On the significant disagreements and confusion by economics experts about how to properly manage economies, see chapter 4, “The Shocking Candour of Economics Professors,” in Anderson and McShane, *Beyond Establishment Economics*, 65-78.

If the decisions about how to use the rise in wages leads to further saving and investment in the major surplus expansion, then the increased surplus activity will continue until it reaches its peak and slows down. At this point, the basic productive capacity begins to shift, feeling the benefits of the innovations that will accelerate basic production. Increased income can now be spent on basic products, as the shift to a major basic expansion is underway. Along with the major basic expansion comes a rise in the standard of living of all, as more basic goods and services are available and as there is income available to support cultural institutions and relationships. The cultural order has an influence on the economic, in promoting the kinds of relationships and ideas that sustain it and in offering critical reflection on the performance of the economic order in achieving its purpose of providing and improving the standard of living for all people.

### **3.7 Concluding Remarks**

For Lonergan, intelligently managing the economy and managing profit are ethical issues. They require decisions that are informed by understanding the complexity of economies and profit, along with its functions. These are decisions that are to be made by everyone, which means that economics must be profoundly democratic. This requires a massive effort to educate all people and to allow the participation of all people in economic decision making. It also requires a regional focus to these decisions, as a regional, community-based focus is the best forum for democratic participation in

economic life.<sup>275</sup>

In the following chapter, I will further discuss Lonergan's understanding of the relationship of ethics and economics, particularly in light of the function of profit. I will outline Lonergan's ethical framework of the structure of the good and the scale of values that situate the economic order in relation to different social orders. Goods of order function dynamically to meet ongoing basic needs and also to provide the conditions for caring and meaningful relationships to emerge. The higher level of value acts to further condition the concrete operations of the goods of order, allowing for their improved performance. I will also discuss the fact that this improvement does not necessarily happen, and so I will outline Lonergan's notion of bias and its destructive social and personal effects. I will then return to the discussion of profit, discussing its ethical use and its misuse in light of Lonergan's framework. This will lead into the final chapter that examines Lonergan's broader theological vision, involving progress, decline, and redemption in history, as well as his methodological efforts to point to a strategy for an educational shift by way of functional specialization.

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<sup>275</sup>This is argued by Philip McShane in his call for locally-oriented, empirically-rich, and normatively-focussed economics texts in an effort to reorient the discipline and its practice. See McShane, *Pastkeynes, Pastmodern Economics*; and Bruce Anderson, "Economics: As If Local Community Mattered," *Catholic Rural Life Magazine*, Vol. 46, No. 2 (Spring 2004): 1-5; Pdf file downloaded from the National Catholic Rural Life Conference website, [www.ncrlc.com](http://www.ncrlc.com) (Nov. 2005).

## Chapter Four

### The Structure of the Good and Profit: Fostering Economic Growth

#### 4.1 Introduction

In chapters two and three, I introduced some key aspects of Lonergan's macroeconomic analysis and identified his understanding of the function of profit as pure surplus income. In this chapter, I draw out the relationship between Lonergan's understanding of ethics and economics by outlining his structure of the good.

Lonergan's work on ethics is developed in various sources. His early work on grace and freedom dealt with the participation of persons with God in willing and doing the good.

His ideas on ethics rely further on his worldview of emergent probability, which

outlines what he calls recurrence schemes, how these schemes emerge, and how they set the conditions for further schemes. These early works ground Lonergan's later

discussion of the structure of the good and the scale of values.<sup>276</sup>

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<sup>276</sup>See Lonergan, *Grace and Freedom: Operative Grace in the Thought of St. Thomas Aquinas*, ed. J. Patout Burns (London: Darton, Longman & Todd, and New York: Herder and Herder, 1971), and *Insight: A Study of Human Understanding*. Lonergan's understanding of the structure of the good is outlined in *Topics in Education: The Cincinnati Lectures of 1959 on the Philosophy of Education*, eds. Robert M. Doran and Frederick E. Crowe, revision of the unpublished text prepared by James Quinn and John Quinn (Toronto: University of Toronto Press, 2000, c1993). However, Lonergan's most developed discussion of the structure of the good is outlined in *Method in Theology* (London: Darton, Longman & Todd, and New York: Herder and Herder, 1972; reprinted Toronto: University of Toronto Press, 1990, 1994, 1996). For further developments of Lonergan's ethics, see Kenneth R. Melchin, *Living with Other People: An Introduction to Christian Ethics Based on Bernard Lonergan* (Ottawa: Novalis, 1998); and Michael Shute and William Zanardi, *Improving Moral Decision-Making* (Halifax: Axial Press, 2003).

For Lonergan, economies are goods of order that have their own moral criteria, which do not have to be imposed from without. These criteria are grounded in the dynamic rhythms of the circuits of production and payments and in their phases. But economies do have to be understood and managed intelligently in order for them to function as schemes that regularly and equitably provide a sufficient standard of living for all. Lonergan's structure of the good allows for a novel and complex understanding of the common good and its concrete functioning in networks of social relationships. I also discuss, in this chapter, Lonergan's scale of values, which functions as an indicator of the concrete conditions that are required to allow for the continuation of goods of order.

## **4.2 Lonergan's Structure of the Good**

### **4.2.1 The Moral Framework of the Structure of the Good**

To talk about the common good in terms of a good economic order presumes that previous questions have been asked and answered about what economies are and how they function. It is clear from grappling with Lonergan's macroeconomic analysis that answering these prior questions about economies takes some serious intellectual and imaginative effort. However, for Lonergan, this effort to understand is essential for an adequate ethical response to the exigencies of economies and of further related social networks. The demands of economies involve the dynamic activities of the basic and surplus circuits of production and the circulation of payments at various phases. For

Lonergan, moral principles emerge from the demands and rhythms of these economic activities, and moral decision-making regarding these activities involves understanding their complexity by way of a general, theoretical analysis of concrete economic orders. Regarding this general, theoretical analysis, Lonergan states, “we are asking for an instrument that democracy must have, for it is the broad generalization, the significant correlation, that effectively organizes free men without breaking down their freedom... it is only to give an account of enormous facts overlooked by political economy and by specialized economics that this generalization is undertaken; and it is only by a new study of facts, more fully grasped because more broadly seen, that our general conclusions can be made a source of practical applications.”<sup>277</sup>

For Lonergan, the ethical response to social and economic problems is not simply a matter of importing ethical principles into any given social or economic theory; the theory itself must be adequate to address the realities of the economic order. Therefore, a general, empirical, and dynamic analysis that is grounded in insights in concrete economic rhythms is required. For Lonergan, the liberal capitalist analysis, based in an understanding of the market mechanism and outlined in the single circuit model, is deeply flawed. The single circuit model does not adequately or empirically grasp the dynamic relations of production and payments and their distinct circuits. Further, it does not acknowledge the key role of understanding and decisions in managing the economic rhythms, as it holds the view that the market mechanism

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<sup>277</sup>Lonergan, *For A New Political Economy*, 7-8, and 10.

functions automatically. Also, the individualism of the liberal capitalist analysis overlooks the key role of intelligence, collaboration, *and* self-transcendence in achieving the ultimate economic goal, which is the well-being of all.

The goal of the economic order is part of the broader goal of serving the common good. The notion of the common good, for Lonergan, is understood within a framework that outlines the relationships among different levels of goods and values. This framework is situated in the broader context of Lonergan's work on the dynamics of history and his worldview of emergent probability. Lonergan's work on the philosophy of history preceded and situated his interest in economics. Furthermore, Lonergan's understanding of how human social, economic, political, and cultural schemes of history emerge and are conditioned and sustained is explained in terms of emergent probability, a worldview that also takes into account the emergence of the universe.<sup>278</sup> As well, Lonergan's understanding of the structure of consciousness is essential to his framework of goods and values. For Lonergan, the recurrent operations of consciousness (experience, understanding, judgment, and decision) are the foundation of our knowing and doing, and form the basis for personal, social, cultural, religious,

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<sup>278</sup>For further discussion of these topics, see *Insight*, chapters 4-7. As well, for a further discussion on Lonergan's work on philosophy of history, see Michael Shute, *The Origins of Lonergan's Notion of the Dialectic of History* (Lanham, MD: University Press of America, 1993). For a further discussion on emergent probability, see Kenneth Melchin, *History, Ethics, and Emergent Probability* (Lanham, Md.: University Press of America, 1987; 2<sup>nd</sup> edition, Ottawa: The Lonergan Website, 1999); see also, Philip McShane, *Randomness, Statistics, and Emergence* (Dublin: Gill and MacMillan, 1970). These topics have been discussed in relation to Lonergan's economics in Paul E. Hoyt-O'Connor, *Lonergan's Macroeconomic Dynamics*.

and historical schemes.<sup>279</sup> Also, the operations of consciousness form the basis of the method of functional specialization, which is Lonergan's strategy for reorienting disciplines in an effort at interdisciplinary collaboration toward effectively solving the complex problems of history.<sup>280</sup> Although my discussion will not elaborate on all of these themes, it is important to have the broader context of Lonergan's work in mind in the discussion of his understanding of the framework or structure of the good.

Lonergan's discussion of the structure of the good is grounded in his understanding of the good as concrete; it is not a matter of abstraction, but it is about the decisions and actions that make our lives and our world. In this way, the good is understood as both individual and social, in that it involves our creation of ourselves, as well as our networks of relationships with others.<sup>281</sup> Lonergan sets out the structure as a

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<sup>279</sup>Lonergan's understanding of the structure of consciousness is identified in a complex explanatory account in *Insight*. By schemes, I am referring to "schemes of recurrence," which are identified as patterns or processes that repeat or progress with regularity. See *Insight*, 72.

<sup>280</sup>The method of functional specialization is outlined in *Method in Theology*.

<sup>281</sup>Lonergan, *Method in Theology*, 27, 47. Lonergan outlines the structure of the good by way of the following scheme:

<i>Individual</i>		<i>Social</i>	<i>Ends</i>
<i>Potentiality</i>	<i>Actuation</i>		
capacity, need	operation	cooperation	particular good
plasticity, perfectibility	development, skill	institution, role, task	good of order
liberty	orientation, conversion	personal relations	terminal value

framework for identifying these relations that indicate the complexity of the concrete good.<sup>282</sup> The structure builds on Lonergan's understanding of levels of the good: desires (particular goods), goods of order, and value.<sup>283</sup> These levels are different ways of meaning the good, and they are understood as hierarchical, where each higher level sublates the lower. Consequently, the shift from the good of desire to the good of order to value takes up and redefines each lower level within a larger horizon of concern. These levels function to indicate an orientation of living and, fundamentally, a direction of change and development.<sup>284</sup>

Throughout our lives we are constantly negotiating and living out of different understandings of and approaches to what is good or right. The differences are indicative of different ranges of concerns, or horizons, that set the parameters of our motivations. Lonergan's three levels of the good indicate different horizons of concern, with different ends or purposes to be reached. So, the good of desire includes a vast range of particular goods that allow for the satisfaction of ranges of needs, desires, and interests. It also includes the capacity to desire, which can be cultivated to extend

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(Lonergan, *Method in Theology*, 48)

<sup>282</sup>To highlight this complexity, Lonergan states of the good, "It is a history, a concrete, cumulative process resulting from developing human apprehension and human choices that may be good or evil." *Topics in Education*, 33.

<sup>283</sup>Lonergan, *Insight*, 619; see also *Topics in Education*, 33-38.

<sup>284</sup>For a thorough discussion of Lonergan's understanding of the good and ethics, see Kenneth R. Melchin, *Living with Other People*. See also, Michael Shute and William Zanardi, *Improving Moral Decision-Making* (Halifax, NS: Axial Press, 2003).

beyond the satisfaction of particular goods to achieving the deeper goods of understanding and living meaningfully. It is this orientation that Lonergan's structure outlines.

#### 4.2.2 Particular Goods and Goods of Order

Lonergan's understanding of the rhythms of exchange economies, with the dynamic relations of productive activity and circulations of payments within and between basic and surplus circuits, outlines the economic good of order. The goal of the economic good of order is to provide particular goods and satisfy needs and desires recurrently. We all participate in economic goods of order with an initial interest in achieving particular goods. However, the mere satisfaction of particular goods does not, and cannot, sustain economic goods of order. Goods of order have a dynamism that involves and requires the recurrence of intelligence and collaboration in order for particular goods to be achieved regularly. This dynamism itself becomes a broader goal in the development of networks and patterns of relationships that promote the ongoing well-being, not only of oneself, but of the entire community.

To illustrate, we are all motivated to some extent to satisfy particular desires, some of which are vital for survival and some of which are pleasurable and meaningful. But we do not only need or want to attain particular goods once, but regularly. We have to eat, sleep, work, and love regularly. These particular goods, then, are attained on an ongoing basis by cooperative networks of relationships. These complex networks are

what Lonergan calls goods of order, and we participate in these networks continually.

Lonergan states that a good of order “is not the object of any single desire, for it stands to single desires as system to systematized, as universal condition to particulars that are conditioned, as scheme of recurrence that supervenes upon the materials of desires and the efforts to meet them and, at the price of limited restrictions, through the fertility of intelligent control, secures an otherwise unattainable abundance of satisfactions.”<sup>285</sup>

These goods of order range from families to political, economic, and cultural relationships; networks; and institutions. In fact, daily transactions that we take for granted involve complex sets of operations and relationships that allow us to attain our basic goods regularly.<sup>286</sup> The food that we eat, the products and services that we purchase, the work that we do, the music that we relax to, all involve complex operations and cooperative efforts in order for us to attain the particular goods involved.

For Lonergan, there are conditions that need to be in place for these networks of operations to emerge and to continue.<sup>287</sup> The desire to obtain particular goods regularly leads to the development of skills and habits; these foster the ongoing collaboration and innovation that ground goods of order. These habits involve cultivating understanding and willingness in working together to achieve goods in common. In families, for

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<sup>285</sup>Lonergan, *Insight*, 619-620.

<sup>286</sup>Melchin uses the illustration of a consumer purchase transaction to talk about social structures as goods of order in *Living with Other People*, 49-53.

<sup>287</sup>Lonergan, *Topics in Education*, 35.

instance, the parent or parents teach children to speak, to share, and to cooperate, so that habits and skills develop that allow the children to participate in the family life and broader social networks.

With the development of habits and skills, communities and social groups establish institutions. These are responsible for making particular kinds of decisions regarding social life and for organizing how these decisions will be implemented. A school or university is an institution that coordinates people with particular skills and abilities to organize a curriculum or program of education. This allows for the cultivation of learning and development of citizens who will implement good ideas in the broader social, political, economic, cultural, and religious contexts.

All of these networks of operations are fulfilled by people who, to some extent, are identified by the operations they perform, the skills they develop, and the relationships of collaboration that are established. These relationships are important, not only because they allow us to attain particular goods regularly, but also because they are meaningful ways of communal and social living. It can be said, then, that goods of order allow for the regular provision of particular goods, but these collaborative networks are not defined narrowly by this function. Goods of order allow us to achieve together, by coordinated intelligence and effort, what we cannot achieve on our own. Furthermore, they allow us to become what we could not be on our own.

Economic goods of order, then, allow us to meet individual material needs and desires regularly, but the ultimate goal is to provide and improve a standard of living for

all people. Economic goods of order require intelligence and collaboration to achieve their goal. That is, economies do not function as automatic market mechanisms that only involve an individualist concern for achieving particular goods. When this narrow view guides economic activities, it leads to the kind of ongoing and disastrous social and economic problems that are the global challenges in our time.

#### 4.2.3 Value and Progress

There is certainly no guarantee that goods of order will necessarily work well.<sup>288</sup> There are two areas where problems may arise: there is the proper functioning of the rhythms of the network internally, and there are the further relations among the schemes that function to provide the good for all people. The problem is that these complex collaborative networks of operations and relationships must develop, and development is conditioned by the operations of consciousness, played out communally and historically. But, for Lonergan, along with attentiveness to the data of experience, there is inattentiveness; along with intelligence, there is oversight; along with sound judgement, there is unreasonableness; and along with care, deliberation, and willingness, there is irresponsibility. So, the function of value is to reflect on whether or not goods of order are functioning internally and in relation to each other, not only to bring about particular goods regularly, but also to set the conditions that allow for a good life for all people.

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<sup>288</sup>Lonergan, *Method in Theology*, 51.

The level of value provides a horizon of critical reflection on the performance of goods of order. For Lonergan, value is intended by questions about what we are to do and whether it is to be done. Lonergan refers to value as a “transcendental notion.”<sup>289</sup> In acting on what is good and worthwhile, we foster the development of ourselves as persons, and the development of relationships, communities, and societies. In this development, the range of our concern becomes increasingly complex. What we care about expands, and what we feel strongly about shifts.

Lonergan refers to certain types of feelings as “intentional responses to value.”<sup>290</sup> These feelings are intentional, in that they orient us in a direction toward value and meaning. We feel strongly about those things that mean the most to us. This orientation calls us beyond our own interests, needs, and desires to the values that are lived out in communities through history. Living out of the broader horizon of value involves a shift of concern from satisfaction to value and it involves a shift in how we identify ourselves as persons. We identify ourselves with the broader project of living together in history. The dynamism of this shift is what Lonergan calls “self-transcendence.” It is not a kind of self-denial or dualistic notion. It is rather an orientation to achieve a broader and more integrated sense of who we are and a broader and more integrated range of concerns to which we respond.

Lonergan identifies a scale of values or range of preferences to which feelings

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<sup>289</sup>Lonergan, *Method in Theology*, 34.

<sup>290</sup>Lonergan, *Method in Theology*, 30.

tend to respond.<sup>291</sup> He distinguishes vital, social, cultural, personal, and religious values. The prior values set the conditions for the emergence of later values but are sublated by the later values.<sup>292</sup> This means that the prior values, while setting the initial conditions for the latter, do not set their limits. In fact, there is a mutual conditioning of prior and later values. So, we respond to vital values in feeling the need to take care of our health. We also establish goods of order so that there are regular means not only for us to maintain our health, but for our families, communities, and social groups to do the same. We have institutions and social groups that regulate food, health care, and our residential, work, and recreation spaces. Culturally, we reflect on these networks of relationships creatively in our literature, films, paintings, and music, celebrating achievements and challenging limitations. Our personal (not individualist) values situate us as existential subjects reflecting on our role in creating ourselves and others with a view to well-being. Finally, religious values call us to live more fully as part of the processes of history and of the cosmos.

This scale of preferences indicates a normative orientation of concern whereby we grow toward not only satisfying desires and needs, but we care about and identify ourselves with broader social processes and expressions of meaning. This broader identification allows us to reflect on how well the goods of order are functioning to meet

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<sup>291</sup>Lonergan, *Method in Theology*, 31.

<sup>292</sup>For a recent explication of sublation and the scale of values, see Kenneth R. Melchin, "Democracy, Sublation, and the Scale of Values," (paper in publication).

recurrent needs and desires and to set the conditions for the fostering of further values. The broader horizon of meaning expressed at the level of values goes beyond the functioning of goods of order in themselves to a concern for progress and decline in history.<sup>293</sup>

It is clear that those social networks, structures, and institutions that we establish in our communal lives do not always meet the needs of everyone. These networks emerge as mixtures of intelligence and collaboration, along with unintelligence and confusion. For Lonergan, progress is the ongoing movement of schemes of history grounded in self-transcendence and resulting from recurrent authenticity. We attend to schemes of meaning; we intelligently grasp these schemes, situations, and structures; we reflect on the reasonableness of our understanding; and we consider responsible courses of action. Decline is a result of the failure to achieve recurrent authenticity, and it has its roots in inattentiveness, unintelligence, unreasonableness, and irresponsibility.

The level of value functions as critical reflection upon insights into the concrete operations of goods of order.<sup>294</sup> Questions emerge about whether all people are able to participate fully in social networks, structures, and institutions. The exclusion of women, people of various ethnic backgrounds, and people of various sexual orientations make it clear that not everyone is allowed to participate fully in or benefit from social structures in certain contexts. The pervasive destruction of the planet, the persistence of

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<sup>293</sup>Lonergan, *Method in Theology*, 53.

<sup>294</sup>Melchin, *Living With Other People*, 45.

wars and violence, and the silencing of the poor and sick are further testaments to social decline. A further problem arises when the broader horizon of meaning at the level of value is victim to social and historical decline. The habits of virtue expressed at this level become increasingly more difficult to identify and to live out with consistency, and fewer people are able to challenge or even understand the social situation. As Lonergan states in *Insight*, indicating the vastness of this problem, “the social situation deteriorates cumulatively” as a result of the longer cycle of decline.<sup>295</sup>

### 4.3 Bias and the Longer Cycle of Decline

The economic order, along with all goods of order, may be subject to the pervasive effects of bias. Lonergan understands bias as a “flight from understanding” that emerges from the tension of the dialectic of the subject and the dialectic of community in the broader context of the dialectic of history.<sup>296</sup> The dialectic of the subject is the basic creative tension of our chemical, biological, physiological, and psychological processes and the demands of consciousness.<sup>297</sup> Living out our lives by way of conscious intentionality requires that prior schemes and processes set the

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<sup>295</sup>Lonergan, *Insight*, 254.

<sup>296</sup>For a discussion of the dialectic of the subject and of community, see *Insight*, chapters 6 and 7. For a discussion of the dialectic of history, see Michael Shute, *The Origins of Lonergan’s Notion of the Dialectic of History*.

<sup>297</sup>Lonergan talks about dialectic as a creative tension of linked but opposed principles of change. The tension of these principles is creative when there is a balance, but it can be destructive when one principle is dominant. Lonergan, *Insight*, 242.

conditions for later schemes and processes of meaning, with the later schemes subsuming the prior and setting conditions for further schemes. For instance, we need functioning nervous, circulatory, skeletal, muscular, and hormonal systems in order for the operations of sensation, perception, intelligence, reflection, decision-making, and loving to be possible. But these later operations also function to condition the prior. The result of this two-way conditioning is a tension that arises in humans as we function as conscious subjects.

The dialectic of community is the basic creative tension of practical intelligence and spontaneous intersubjectivity.<sup>298</sup> We continually live our lives with others, and we make efforts to live well together. We develop ideas, tools, and skills to make our living together work well. We have done this continually in different ways and different contexts throughout history. Networks of relationships involving intelligence and cooperation emerge from the creative tension of the dialectic of community. The tension of practical intelligence and the spontaneous social feelings and desires is creative when in balance. However, the dominance of one principle over the other can lead to social crisis. Further, the dialectic of subject and community are mutually conditioning, both dynamically setting conditions for the other.

The complex historical unfolding of these tensions results in both progress and decline in history. Decline results when bias enters into the processes of history. For instance, the creative tension of the dialectic of the subject enables neural demands and

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<sup>298</sup>Lonergan, *Insight*, 242-244.

the demands of consciousness to work together in allowing images to emerge in consciousness in order for insights to occur. But the tension does not always function properly. The results of the improper functioning can be cumulative, leading to cycles of social decline.

Regarding the dialectic of the subject, Lonergan uses Sigmund Freud's understanding of the psychic censor to discuss the emergence of images into consciousness. We cannot process all the data of sense and consciousness that we experience, so we pattern our experience in ways that allow us to function, make sense, and respond. For Lonergan, our psychic censor acts to regulate the information that emerges in consciousness, so that the images required for insights emerge in conjunction with relevant feelings. Dramatic bias is the failure of the tension between neural processes and the demands of consciousness, so that the psychic censor does not properly regulate the emergence of images in consciousness, or the images that emerge are detached from their proper feelings.<sup>299</sup>

For Lonergan, dramatic bias is fundamentally a distortion of understanding that has the effect of distorting the viewpoint of the person involved. This effect can be cumulative. Lonergan names this "aberration of understanding a scotosis...and the

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<sup>299</sup>Lonergan, *Insight*, 214. Significant work in this area has been written by Robert Doran on psychic conversion. Doran has used Lonergan's intentionality analysis and Jungian dream analysis techniques to talk about the healing of the psychic censor in the dream process itself. See Robert M. Doran, *Theology and the Dialectics of History* (Toronto: University of Toronto Press, 1990, reprint 2001), and *Psychic Conversion and Theological Foundations: Toward a Reorientation of the Human Sciences*, American Academy of Religion Studies in Religion Series (California: Scholars Press, 1981).

resultant blind spot a scotoma.”<sup>300</sup> This dramatic bias not only plays out in the individual, but it can become extended and repeated in cycles of dysfunction, abuse, and social and cultural patterns.<sup>301</sup> It combines with other forms of bias as a formidable challenge to progress.

The other kinds of bias that Lonergan identifies involve the dialectic of community, and they are individual, group, and general bias.<sup>302</sup> These forms of bias involve a distortion of understanding by way of dysfunctions or aberrations in the creative tension of the dialectic of community. These distortions involve different aspects of the tension of practical intelligence and intersubjectivity. Individual bias is the exclusion of questions and insights that go beyond the narrow interests of the individual ego. This form of bias gives preference to a narrow form of self-focussed practical intelligence over intersubjectivity. The egoist is not concerned with the well-being of others beyond what that might mean for her/himself. Only those questions and insights that promote or do not threaten the individual are given legitimacy. Group bias involves a similar exclusion of questions and insights, but it excludes that which is beyond the interest of a particular group. Here we find forms of bias such as racism, sexism, nationalism (taken to an extreme), terrorism, where groups are so completely

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<sup>300</sup>Lonergan, *Insight*, 215.

<sup>301</sup>Judith Lewis Herman, *Trauma and Recovery* (New York: Basic Books, HarperCollins Publishers, Inc., 1992). This book looks at trauma and its effects in different social contexts, including domestic abuse and political terror in war.

<sup>302</sup>Lonergan, *Insight*, 244-257.

self-identified that their interests are focussed on their own well-being to the exclusion of the well-being of others. These forms of bias are manifest in any given economic order in the promotion of individualism or narrow collectivism at the cost of the good of the whole.

Finally, Lonergan identifies the general bias of common sense. For Lonergan, common sense is a form of intelligence that is concerned with the immediate and short-term practicality. There are different kinds of common sense for different situations in different contexts. But beyond common sense, there is theory. Theoretical intelligence is a kind of intelligence interested in the long-term—the big-picture. It asks questions not only about the particular, but also about the general. It tries to address problems not only for this situation, but for various situations across various contexts. So, while our common sense allows us to function in our daily lives in getting things done with others, theoretical understanding allows us to grasp patterns in relationships, reflect on generalities, and manage complexity.

General bias functions with other forms of bias to lead to cycles of decline. Combinations of group bias and general bias find groups in opposition with little ability to get beyond their limited interests and understanding to solve problems. This gets perpetuated and accumulates in social institutions and networks so that communities, societies, and countries increasingly suffer division, confusion, and breakdown. So, as progress involves increasingly comprehensive viewpoints, decline involves increasingly

less comprehensive viewpoints.<sup>303</sup>

Increasingly less comprehensive viewpoints give rise to a social situation that is absurd, that cannot be understood, because it is unintelligible. Lonergan refers to this as a social surd.<sup>304</sup> And the long-term, theoretical thinking that is required to meet the problems at the level of their complexity is denied as abstract and irrelevant or is made irrelevant by being uncritical. The reality of the longer cycle of decline is not hypothetical. For Lonergan, the longer cycle of decline was clearly manifested in the rise of totalitarianism:

Reality is the economic development, the military equipment, and the political dominance of the all-inclusive state. Its ends justify all means. Its means include not merely every technique of indoctrination and propaganda, every tactic of economic and diplomatic pressure, every device for breaking down the moral conscience and exploiting the secret affairs of civilized man, but also the terrorism of a political police, of prisons and torture, of concentration camps, of transported or extirpated minorities, and of total war. The succession of less comprehensive viewpoints has been a succession of adaptations of theory to practice. In the limit, practice becomes a theoretically unified whole, and theory is reduced to the status of a myth that lingers on to represent the frustrated aspirations of detached and disinterested intelligence.<sup>305</sup>

For Lonergan, the major economic theories of our time, liberal capitalism and Marxist socialism, suffer from aspects of individual, group, and general biases. The individualist tendencies of liberal capitalism and the collectivist tendencies of Marxist

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<sup>303</sup>Lonergan, *Insight*, 254.

<sup>304</sup>Lonergan, *Insight*, 255.

<sup>305</sup>Lonergan, *Insight*, 256-257.

socialism are challenges to the development of a fully democratic economic order. However, the further and equally significant barrier is the lack in these theories of a generalized, empirical analysis that adequately outlines the dynamic rhythms of economic goods of order. This, for Lonergan, is a further barrier to establishing a truly democratic economic order that is properly related to a democratic political order; that is, that liberal capitalism tends to promote the economic over the political, and Marxist socialism tends to promote the political over the economic.<sup>306</sup>

#### **4.4 Progress, Decline, and Redemption**

Lonergan's view of the longer cycle of decline must be understood in relation to his understanding of progress and the complex expression of both in history, as societies, cultures, and traditions work out the challenges of authenticity and inauthenticity. For Lonergan, these two dynamic trajectories are part of his understanding of the dialectics of history. However, there is another important dynamic factor at play in these relationships. Lonergan refers to three differentials in the dynamics of history, which he also refers to as the differentials of the human good: progress, decline, and redemption.<sup>307</sup> While distinct, these dynamics are in continual interaction and so play out as a complex and mixed direction in history. Progress involves the cumulative development of intelligence and responsible decisions. Decline

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<sup>306</sup>Lawrence, "Editors' Introduction," in *Macroeconomic Dynamics*, xxxv.

<sup>307</sup>Lonergan, *Topics in Education*, 49-78. These "differentials" are referred to as "forces" by Melchin, *Living With Other People*, 102. See also, Michael Shute, *The Origins of Lonergan's Notion of the Dialectics of History*.

involves the cumulative effects of the turn away from understanding and responsibility, which Lonergan identifies as sin.<sup>308</sup> But along with these forces, there is the ongoing presence of God in history. God's grace acts as a force that shifts concern and offers hope where it otherwise would not be considered possible. It shifts possibilities and probabilities so that even conditions where decline seems deeply set and pervasive, there can be change, growth, and caring.

For Lonergan, God's grace is an invitation to growth, but the invitation requires a response.<sup>309</sup> The response involves different kinds of growth. There is a vast complexity in how we engage the world and how we are informed by the world as we develop. Our relationship with God is part of this complexity. It is not only part of the complexity of our personal lives, but it also informs the patterns of our lives together in societies, communities, and traditions. So there are ways in which social structures can be authentic and responsive to grace, and there are ways in which they can be inauthentic and sinful.<sup>310</sup> They cannot only distort our relation to ourselves, by way of self-inattentiveness, and distort our relations with others, but also sinful social structures distort our relations with God. There emerges the kind of profound alienation and despair that leaves us lost, disconnected, and broken. So, responding to decline is

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<sup>308</sup>Lonergan, *Topics in Education*, 58.

<sup>309</sup>Lonergan draws out this discussion on operative and cooperative grace in *Grace and Freedom*.

<sup>310</sup>Melchin, *Living With Other People*, 93.

increasingly difficult. The challenge for everyone is to try increasingly to make sense of what is intelligible, and increasingly to respond to the concrete good, to create the conditions for further openness and authenticity. I will return to this challenge in chapter five.

#### **4.5 Horizons, Conversions, and Higher Viewpoints**

Our horizons are the limits of our understanding and concern. As we engage the world in our development as persons we ask and answer questions to make sense of life. We do this in an effort to live meaningfully, out of our understanding and values. We do this in a context, an historical era, a region, a cultural or religious tradition, and ethnic community. As we develop as persons in contexts, we either implicitly or explicitly operate within the limits of our horizons. There are different ways in which these limits function.<sup>311</sup> There are ways in which our horizons might set the limits of our interest and concern, but they might also allow us to recognize the relevance of other horizons. This is a complementary difference in horizons. There are also ways in which our horizons are at different stages of development, so that they may be more comprehensive as we learn and grow. Our horizons also may be more or less comprehensive than those with whom we are involved. This is a genetic difference in horizons. Finally, there are horizons that are in opposition, whereby our interests and concerns are contrary to those

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<sup>311</sup>Lonergan, *Method in Theology*, 236. Lonergan's discussion of horizons and conversion in *Method in Theology* is part of the discussion on the functional speciality "dialectics."

of others. This is a dialectical difference in horizons.<sup>312</sup>

As we consider our own development, we may be able to identify in our experiences those significant shifts in horizon that not only broaden our perspectives and concerns, but completely reorient them. It is a kind of self-transcendence whereby we go beyond our previous limits of understanding and concern. Lonergan refers to these shifts as conversions, and he identifies three kinds: intellectual, moral, and religious.<sup>313</sup> Intellectual conversion involves the shift from the naive realist position that knowing is like seeing, to the critical realist position that knowing involves critical reflection (judgement) on insights into experience. It is a shift that takes us out of the world of immediacy, where we narrowly define what we know and how we know in terms of our sensory impressions. Lonergan refers to the broader world mediated by meaning and motivated by value, as that world beyond infancy, where we begin making sense of the life, patterning experiences, shaping sensation by perception, and nurturing feelings. In our lives, we engage a world that is a complex of meaning networks and that world engages us in the development of our perspectives. With intellectual conversion,

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<sup>312</sup>Lonergan, *Method in Theology*, 236.

<sup>313</sup>Lonergan, *Method in Theology*, 238. Robert Doran adds “psychic conversion” as the shift from a repressive to a constructive psychic censor. See Doran, *Theology and the Dialectics of History*, 9. Also, McShane has indicated as implicit in Lonergan’s work what he calls “theoretic conversion,” which involves the “turn to the idea,” and overcomes the elevation of common sense resulting from general bias and the longer cycle. McShane sees this playing out concretely in the implementation of Lonergan’s strategy of functional specialization. See McShane, “Preface,” *Searching for Cultural Foundations*, ed. Philip McShane (Lanham: University Press of America, 1984), vi.

we recognize that our engagement involves a pattern of operations that set the criteria for how we know and what we know.

Moral conversion involves a shift whereby our range of concerns changes from narrowly-defined self-interest to value.<sup>314</sup> This kind of self-transcendence involves a de-centring so that not only are our interests and concerns reoriented, but also we understand ourselves more fully as subjects who are agents in the world. As moral agents, we engage and influence the world in which we live, as we are engaged and influenced by that world. Further, we create ourselves in this process. There is, of course, a large extent to which we are educated, socialized, and inculturated<sup>315</sup> in our development. Often the habits that we make our own, we do without fully conscious recognition or intention. But as we shift in our development, we may become more aware of the persons that we are, the habits that we want to foster, and the relationships that we want to build. We also become aware of the limits to our effective freedom<sup>316</sup> and those habits and relationships that are destructive. With the shift in moral conversion, we begin to recognize that those higher values, in accordance with a scale of preference, are lived out concretely in our social and personal relationships. Our friendships, our families, our communities, our social structures, cultures, and traditions

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<sup>314</sup>Lonergan, *Method in Theology*, 240.

<sup>315</sup>Melchin, *Living With Other People*, 68-72.

<sup>316</sup>Lonergan distinguishes between essential and effective freedom as “the difference between a dynamic structure and its operational range.” See Lonergan, *Insight*, 643-45. See also, Melchin, *Living With Other People*, 75.

are where we learn and live out our values. As we grow, our desires are not only a matter of individual interest, but what we desire and what grounds our decisions is value, which is fundamentally social and relational.

As well, this desire for value takes us beyond our direct relationships to a concern for authenticity in all relationships and social structures. Our concern extends beyond our time and place to recognize the need for justice for all people. Here we recognize and foster resistance to racism, sexism, homophobia, and other forms of social exclusion and discrimination. We talk about human rights and democracy, in order to make claims to the value of freedom and the well-being of all.<sup>317</sup> We consider not only the well-being of other people, but also of the earth and all of its inhabitants. We become motivated to live and act in a way that promotes these values, sometimes risking our own well-being or even our lives.

For Lonergan, religious conversion is a further reorientation or shift, one in which we are “grasped by ultimate concern.”<sup>318</sup> Religious conversion is an awakening to a further dimension of existence that manifests itself in different ways in different cultures, traditions, and contexts. It is a shift that takes us beyond the concerns of our

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<sup>317</sup>Discourse about human rights and democracy is extensive, and there is no consensus about how these are best understood or lived out. As well, not everyone who recognizes the importance of values would make the same rights and freedoms claims for every group. Moral conversion is an ongoing process that is still subject to the limits of effective freedom, although it allows for an openness that can shift possibilities. For a discussion of value and perspectives on democracy, see Melchin, “Democracy, Sublation, and the Scale of Values,” (paper in publication).

<sup>318</sup>Lonergan, *Method in Theology*, 240.

daily living, only to enrich our daily living with a kind of love and awe. Lonergan talks about religious conversion in the Christian tradition in terms of operative grace, where our being, our hearts, are transformed by God's love. He adds that cooperative grace is our response to that transformation in the living of our lives.<sup>319</sup> It is this extraordinary experience of God's love that heals broken hearts, minds, and spirits, when healing is impossible to expect. It allows for hope when situations are hopeless. It opens us to God's ongoing presence in history and as that loving presence that sustains the universe. With religious conversion, we understand ourselves as oriented in the universe toward God, toward the ultimate. This orientation becomes the ground of our desire, of our knowing, and of our acting in the world.

For Lonergan, these conversions do not necessarily occur in a given order. As ongoing processes, they inform each other as we develop and are engaged in the world. Often our religious feeling will inform our decisions and will heighten the values that guide our living. As well, our religious and moral commitments can inform our belief systems and can challenge us to try to understand better our contexts and relationships. Our range of concerns are reoriented, so all that we know and do are lived out differently. That is not to say that bias is not still operative in our knowing and acting. However, the openness to self-transcendence by way of conversion allows a recognition of the reality of bias as operative in our lives. The ongoing processes of the conversions meet the ongoing reality of bias in its many forms. These processes play out in our

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<sup>319</sup>Lonergan, *Method in Theology*, 241.

concrete living as part of our struggles to live authentically. The extension of these processes are played out concretely in history as the differentials of progress, decline, and redemption.

Meeting the longer cycle of decline at the level of history involves living out the conversions intentionally with a view of the differentials of history. For Lonergan, this requires a higher viewpoint that allows for a more comprehensive perspective about the situations in which we live.<sup>320</sup> This more comprehensive and general perspective takes into account operations and relationships that would not otherwise have been given consideration, as they could not be understood independently or outside of a larger framework of understanding where sets of relationships can be grasped.

Meeting the longer cycle of decline at the level of history also requires a strategy for implementing the higher viewpoint. Given the scale of the problem of the longer cycle, a massive reorientation of disciplines is required to address its complexity. For Lonergan, this strategy is outlined in his discussion of functional specialization,<sup>321</sup> which outlines a complex strategy for reorienting disciplines in accordance with the

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<sup>320</sup>Lonergan discusses higher viewpoints early in *Insight* in order to outline the elements of insight, as illustrated in analogies with mathematics (chapter 1, section 3). He moves on to discuss higher viewpoints in response to the longer cycle of decline and in terms of cosmopolis (chapter 7, section 8.6). He extends the discussion in the chapter on metaphysics and the universal viewpoint (chapter 17, section 3).

<sup>321</sup>This point is argued by McShane in several sources. See, McShane, *Economics for Everyone*, 135-161; and "Preface," and "Middle Kingdom: Middle Man" in *Searching for Cultural Foundations*, Philip McShane, ed. (Lanham, MD: University Press of America, Inc., 1984), i-xxii, 1-43.

intentional operations of consciousness.<sup>322</sup> The eightfold structure of functional specialization provides a basis for interdisciplinary collaboration.<sup>323</sup> By reorienting disciplines from organization by fields to functional organization, Lonergan allows for a clearer distinction between questions, knowledge, skills, and tasks involved in different specialties of a discipline. Lonergan distinguishes the functional specialties as research, interpretation, history, dialectics, foundations, doctrines, systematics, and communications. Such a methodological shift is part of the broader educational effort that is needed to face the longer cycle of decline. It also allows for the foundational shifts of the conversions to become central to the collaboration of disciplines.<sup>324</sup> This broad educational task involves the promotion of the conversions in the functioning of the economic order, as well. As Byrne states, “Lonergan’s analysis of economic functioning led him to conclude that no solution would be adequate unless it included an educational promotion of the four ‘conversions’: intellectual, moral, religious, and psychic. These conversions reorient the aberrations at the roots of human

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<sup>322</sup>Lonergan outlines functional specialization in *Method in Theology*, with a specific focus on the discipline of theology.

<sup>323</sup>McShane refers to functional specialization as “an eightfold structure of global academic collaboration that meets needs desperately present in areas as seemingly separated as musicology and ecology.” See McShane, *Economics for Everyone*, 152.

<sup>324</sup>As the insights and judgements of collaborators are passed on through the specialties, perspectives on positions and counter-positions are handed on with a view to deciding upon foundations. This process will, for Lonergan, “make conversion a topic and thereby promote it.” *Method in Theology*, 253. McShane has raised this as central to the task of functional specialization. See McShane, “Preface,” *Searching for Cultural Foundations*, vi.

disorientation.”<sup>325</sup>

## 4.6 Levels of the Good and the Economic Good of Order

### 4.6.1 Political and Economic Goods of Order

In the context of his discussion of the levels of the good and the dynamics of history, Lonergan’s understanding of the economic good of order emerges. Lonergan defines the economic good of order as distinct from, but closely related to, the political and technological goods of order.<sup>326</sup> This distinction is important for understanding what are economic variables, the terms and relations that are proper to an economic order. If this distinction is not made, there is the problem of confusing what is properly political and what is properly economic, leading to a distorted relationship between the two. This problem has emerged with the two leading economic theories of modern time: liberal capitalism and Marxist socialism. According to Lonergan, liberal capitalism has promoted some insights about productive activity, particularly in terms of free enterprise. Lonergan’s support of free enterprise must be understood in a more comprehensive system than liberal capitalism allows:

Very definitely I should say that the issue of free enterprise is proximately scientific but ultimately existential. It is proximately

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<sup>325</sup>Byrne, “Economic Transformations” in *Religion and Culture*, 338. Here, Byrne includes psychic conversion to be equally as significant as the main three. Again, Robert Doran is the key Lonergan scholar to have pioneered and elaborated on the significance of psychic conversion. See note 292.

<sup>326</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, xxxi-xxxii.

scientific inasmuch as one has to refuse to mean by free enterprise what has been going on in the West for the past two hundred years. One has to mean what is revealed as possible by a functional analysis in macroeconomics. But the issue is ultimately existential, for one has to choose between praxis and technique.<sup>327</sup>

However, liberal capitalism, in promoting the freedom of the economic order from political control, by way of the theory of the market mechanism as motivated by self-interest, has trivialized the political and has defined human freedom in an overly narrow and distorted way in relation to the “automatic” processes of the market. For Lonergan, there is a normativity to the circuits and phases of productive activity, and these processes have to be intelligently understood and responsibly managed in a manner that is democratic. The theory of the market mechanism of liberal capitalism does not recognize the need for this intelligent, responsible, and democratic management.

As for the Marxist socialist theory, Lonergan considered its distinction between economic and social theory to be weak. His great concern, however, was with the socialist domination of the economic by the political, often leaving the management of economies to unwieldy bureaucracies that were at best well-intending but misguided, and at worst totalitarian and destructive. Lonergan felt that leaving the economic order in the hands of bureaucracies, rather than in the hands of the people, was profoundly undemocratic and dysfunctional. Ultimately, Lonergan’s concern was to set out an

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<sup>327</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, xxxiv; taken from a transcript of a Lonergan Workshop session, June 24, 1977.

economic theory that would allow for a democratically run economic order that functioned in accordance with the normative rhythms of the circuits and phases.<sup>328</sup>

For Lonergan, the economic order has a proper relationship to the political order that is part of the sublation involved in the structure of the good and the scale of values. Lonergan understood the relationships of technological, economic, and political orders as hierarchical, in the sense that the prior set the initial conditions for, but are further conditioned by, the latter. So, while the economic order allows for the material conditions and technological innovations that will provide and advance the standard of living for all, the political order allows for the structures and systems of relationships that further promote well-being. This includes democratic participation at all political levels (municipal, provincial, regional, national, and international). Lawrence states of this relationship that “if the concretely functioning economy disposes of material and technological resources to mediate the material conditions of human living, the task of politics is to constitute an ethos for disposing of the economy, ‘an ethos that at once subtly and flexibly provides concrete premises and norms for practical decisions.’”<sup>329</sup>

Lawrence states further that this ethos is grounded in the scale of values, so that:

Vital values condition and are subordinate to social values such as a prosperous economy; social values condition and are subordinate to

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<sup>328</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, xxxix. Lawrence refers to Lonergan’s earlier economics manuscript in stating, “The ultimate aim of his *Essay* was ‘a democratic economics that can issue practical imperatives to plain men.’” See Lonergan, *For a New Political Economy*, 5.

<sup>329</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, xxxi-xxxii.

cultural values that give meaning and value to a society's way of life; these cultural values condition and serve personal values – the freedom and dignity of each human being; and all these values condition and are oriented and fulfilled by religious values relating us directly to divine transcendence.<sup>330</sup>

The economic and the political, then, are distinct levels of goods of order that have their proper functions and are interrelated. But the broader political goals of democracy and freedom require the proper functioning and management of the economic order, as higher level values require lower to be lived out recurrently.

The distortions of the relations between the political and economic orders are part of the larger problem of the longer cycle of decline. With group and general biases, there is a lack of adequate theory to match the complexity of the relationships that must be considered in a comprehensive understanding of social and historical dynamics. For Lonergan, both liberal capitalism and Marxist socialism fall victim to the longer cycle, not only in their surrender to common sense, but also in the tendency to foster group bias by way of ongoing adversarial social dynamics. The problem here is that the oppositions between groups or parties become increasingly based on narrow competing interests and ideologies.

#### 4.6.2 Culture and the Economic Order

There is an important relationship between the economic order and culture, specifically cultural values, and this relationship is connected with how we understand

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<sup>330</sup>Lawrence, "Editors' Introduction," in *Macroeconomic Dynamics*, xxxii.

values, specifically in light of social living.<sup>331</sup> The networks of political, economic, and other social orders are recurrence schemes. They involve dynamic relations of innovation and cooperation that emerge from prior schemes. However, these schemes are conditioned and sustained by later cultural meaning schemes. In Lonergan's conception of the economic order, his analysis identifies circulations of productive activity and monetary circulations that fluctuate according to dynamic phases. This is how the economic scheme is structured. However, a broader context of cultural conditioning schemes sustains and develops the economic schemes. Both the economic schemes and the broader cultural schemes need to be understood and responsibly directed in order for economic needs to be met.<sup>332</sup>

The interplay between economic schemes and broader social and cultural schemes is complex and involves fundamental ethical concerns. Achieving and sustaining cooperative economic schemes in productive activity and the circulation of payments is essential to achieving, sustaining, and improving a standard of living for a community. This is the goal of the economic good of order. It regularly provides particular goods for the members of a community, but also it forges relationships of

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<sup>331</sup>This topic is developed in Melchin, "Economies, Ethics, and the Structure of Social Living," *Humanomics*, vol.10, no.3 (1994):21-57.

<sup>332</sup>Melchin uses three examples to highlight the relationship between economic schemes and the broader context of cultural meaning schemes: a consumer purchase transaction, Karl Polanyi's study of ancient trading schemes, and Jane Jacobs' study of city economies. See Melchin, "Economies, Ethics, and the Structure of Social Living," *Humanomics*, 26-48.

collaboration and creativity. This is the social meaning of economic ethics.<sup>333</sup> An explanatory analysis of economic schemes is required in order to understand the dynamic relationships involved and to direct our decisions responsibly in accordance with these relationships. In Lonergan's analysis, the dynamism of the circuits and their phases involves patterns of innovation and collaboration. These function to bring about new productive activities or new ways of doing productive activity leading to economic growth and development. The resulting economic transformations emerge in shifts from the minor to major expansions of the surplus and basic circuits, with the end result, if managed intelligently, of an improved standard of living for everyone.

#### **4.7 Self-Interest and the Profit Motive**

In Lonergan's understanding of the levels of the good, particular goods are those objects of need and desire that we want to be met regularly in order to live and to live well. Goods of order allow for these particular goods to be met regularly. Our lives involve complex networks of relationships that function to provide these goods. However, the goods of order, including the economic good of order, cannot be defined by the desire for particular goods. Goods of order take up the particular goods and

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<sup>333</sup>Melchin states, "it is important to understand that the economic explanations themselves articulate forms of human cooperation toward goals and it is this dynamic relationship between cooperative structure and goal which is the essential meaning of 'value' in the social sense." Melchin, "Economies, Ethics, and the Structure of Social Living," *Humanomics*, 25.

situate them in a broader complex of values and relationships. The dynamism of these relationships transcends the limits of the motivation for desires or self-interest. It involves ongoing collaboration and intelligence. Further, there is a way in which our desires shift as they are influenced and conditioned by the social relationships that play out in goods of order, such as through dedication to our jobs, our communities, and our families. These commitments point toward the further level of value rather than desire. At the level of value, the goods of order themselves are critically evaluated in light of those deeper existential concerns that allow us to reflect on goods of order and how well they are functioning. The higher level of value can also have the effect of conditioning how we live out these goods of order, with an effort to promoting their improved performance and challenging bias and inauthenticity.

The liberal capitalist emphasis on the pursuit of self-interest can be understood in terms of Lonergan's levels of the good as a reduction of economic life to the first level, that of desires for particular goods. This has implications for how we understand economic goods of order on the level of macroeconomic analysis and on the level of business. The structure of the good challenges the liberal reduction of values to self-interest. Regardless of how broadly self-interest is defined, economic values are rooted in the patterns of relations of economic schemes and not in individual interests.<sup>334</sup>

Although the liberal political and economic preoccupation with "interest" emerged from

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<sup>334</sup>Lawrence, "Editors' Introduction," in *Macroeconomic Dynamics*, lxx. Lawrence refers to the liberal use of interest in terms of "pursuing one's own interest, enlightened self-interest, the public interest, and so on."

an effort to allow for freedom and diversity in the public realm, it left a legacy of relativism and reductionism that reinforced the notion “that pursuing one’s interest is more in accord with the public interest than acting in the name of the common good.”<sup>335</sup>

For Lonergan, the “democratic spirit” of early political economists was admirable; however, the lack of an adequate economic analysis in liberal economic theory prevented any adequate response to the narrow reductionism of the liberal approach.<sup>336</sup> Modern capitalist economics, according to Lonergan, has not only lost the “democratic spirit” of prior political economists, but it has done so without providing a more adequate economic theory.<sup>337</sup> The problem becomes magnified as inadequate theory starts to influence the actual practice of the economic order so that the networks of relationships, the practical intelligence and collaboration required for economies to function well, become distorted in light of poor theory. This has led to cycles of social and economic deterioration.

At the level of business enterprises, the narrow definition of business in terms of

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<sup>335</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, lxx.

<sup>336</sup>Lonergan, *For a New Political Economy*, 4.

<sup>337</sup>Lonergan, *For a New Political Economy*, 7. Lonergan states, “Economics corrected political economy not by moving to the more general field, and so effecting the correction without losing the democratic spirit of the old movement, but by staying on the same level of generality and by making up for lost ground by going into the more particular fields of statistics, history, and a more refined analysis of psychological motivation and of the integration of decisions to exchange.”

self-interest is as destructive for businesses as it is for large-scale economies.<sup>338</sup> In modern capitalist economies, businesses, particularly publicly traded businesses, have typically been understood in terms of contractual relationships that serve the interests of those entering the contract. This contractual view of business is supported by the view that the purpose of business is to serve the interests of those who have entered the contracts, usually by way of pursuing and distributing profits. The pursuit of self-interest by way of the pursuit of profits, then, has become central in business theory. This view is upheld in the shareholder model of the firm, which is based on agency theory.<sup>339</sup> Agency theory emerges from the field of finance and considers not just business relationships, but all social relationships, in contractual terms. This theory is ultimately grounded in the liberal philosophical tradition, in which persons are understood as

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<sup>338</sup>This theme has been discussed in business ethics literature, most prominently in response to the business scandals of Enron and other instances of corporate fraud. This theme is discussed in the context of the Catholic social ethics tradition in S. A. Cortright and Michael Naughton, eds., *Rethinking the Purpose of Business: Interdisciplinary Essays from the Catholic Social Tradition* (Notre Dame, Ind.: University of Notre Dame Press, 2002).

<sup>339</sup>For a discussion of the shareholder model and agency theory, see Helen Alford, O.P. and Michael J. Naughton, "Beyond the Shareholder Model of the Firm: Working Toward the Common Good of a Business," in *Rethinking the Purpose of Business: Interdisciplinary Essays from the Catholic Social Tradition*, 27-47. The authors state that the shareholder model of the firm "operates on the premise that stock price maximization should be the primary goal of corporate managers. While firms will have other goals, wealth maximization for shareholders should be the ultimate purpose that orders all the other goals of a firm." (29)

entering into social contractual relationships in order to achieve their own interests.<sup>340</sup>

Scandals in big businesses have brought to public attention the many problems of trying to sustain profit margins and shareholder returns when business productivity slows down. There are a number of reasons for which these problems have become familiar to us recently. In part, there is public reaction to what is perceived as rampant greed on the part of upper management, boards of directors, and CEOs who cannot accept declining revenues. Whereas this perception might be correct in some cases, the further reasons for the problems involve both a lack of understanding of businesses and economies as goods of order, and the fact that this lack of understanding has allowed a culture of “interest” to distort these businesses.

Beyond the scandals, business communities have made efforts to redefine themselves and what they do. As an alternative to the shareholder model, the stakeholder model of the firm has emerged in an effort to define business and its purpose more broadly by way of identifying all of the parties involved in a business, not just the shareholders, as having significant interests and roles. This alternative model has emerged along with the view that self-interest must be “enlightened” in order to recognize the many relationships that are essential to the functioning and well-being of a

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<sup>340</sup>Lawrence notes that Adam Smith’s free market theory challenged John Locke’s social contract theory, whereby the political order was needed to control the economic. See Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, xxxv.

business and economy, including relationships of the larger community.<sup>341</sup>

Even though the stakeholder model does take business beyond a narrowly-defined function of the profit motive and increasing returns for shareholders, it still defines the various relations of the stakeholders in terms of “competing interests.”<sup>342</sup>

This means that business becomes understood as a matter of balancing the interests of the various stakeholders, such as management, CEOs, employees, customers, and the broader community. This does not transcend the understanding of the nature of the relationships of business in terms of being motivated by self-interest; it only takes into account the interests of more agents involved in the workings of a business.

Furthermore, the notion of enlightened self-interest suffers the same limitation. It does not move beyond the limits of self-interest, but simply claims that considering the interests of others will serve business interests, or the interests of management, boards of directors, or shareholders, in the long run.<sup>343</sup> The challenge that Lonergan presents is

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<sup>341</sup>The relationships of shareholder, stakeholder, and common good theories of the firm are discussed in relation to Lonergan’s levels of the good in Kenneth Melchin, “What is ‘the Good’ of Business? Insights from the Work of Bernard Lonergan,” *Anglican Theological Review*, vol. 87 (Winter 2005): 43-61.

<sup>342</sup>Melchin, “What is ‘the Good’ of Business?” *Anglican Theological Review*, 50.

<sup>343</sup>Lawrence states, “Even liberals have acknowledged that ‘interest’ needs to be ‘enlightened’ or ‘rightly understood,’ and so the Enlightenment project of humanistic self-affirmation originally coined the amoral slogan of liberal democracy, ‘enlightened self-interest.’ This has tended to mean calculating how looking out for someone else’s interest might be to one’s advantage. According to Lonergan, it has not meant the surmounting of biases that is required for overcoming social and cultural decline.” Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, lxx.

an effort to get beyond the interest-based models in business and economics to an understanding that ethical principles are grounded in a theoretical understanding of the dynamic processes of productive activity and exchange.

#### **4.8 Lonergan's Analysis of Profit and the Structure of the Good**

##### **4.8.1 Misinterpretations of Profit and Its Function**

The problem of the reduction of economic theory and business theory to the pursuit of self-interest involves a misunderstanding of the notion of profit itself. For Lonergan, profit must be understood in the framework of an explanatory macroeconomic analysis that outlines the functional relationships involved in productive activity, the circuits of production and the circulation of money, and the phases of these circuits. In this framework, the “normal profit” of income over expenses in a stationary state must be differentiated from profit as “pure surplus income,” which emerges during an expansion of the surplus circuit, and whose function is to reinvest in that expansion, so that ultimately the full benefits will allow for a basic expansion to raise the standard of living of all.<sup>344</sup> So, profit as “pure surplus income” is understood by Lonergan as the “social dividend,” and its benefits are meant for the entire community. Without an explanatory understanding of economic goods of order and how they work, the profit motive cannot explain what profit is or how it functions. Also, people cannot manage the economy responsibly in order to promote and accelerate the function of profit as a

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<sup>344</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, lxxv.

social dividend so that the entire community benefits.

A key failure of both liberal capitalist and Marxist socialist approaches has been the failure to understand profit and its normative function. There has been a lack of understanding of the distinction between the normal profit that emerges in a constant state and the profit that emerges as pure surplus income in a major surplus expansion. It is generally understood that profit emerges from the activity of entrepreneurs. However, for liberal capitalists there is no real explanation for how profit as pure surplus income emerges, although it is understood as part of the automatic process of the market mechanism, and it tends to be used as a reward for the performance of upper management and executives.

For Marxist socialists, profit is understood as what is wrongly taken by capitalists from the surplus labour of the workers. (This is different from Lonergan's meaning of surplus.) For Marxists, profit is the result of the exploitation of workers and should be redistributed to workers in particular ways, either by greater contributions to wages, greater worker control of production, or social redistribution programs by governments. However, the socialist view fails to make the distinctions of circuits and phases of productive activity and exchange involved in the production of wealth. Further, it fails to account for the democratic and ethical decisions that are needed to allow for the distribution of wealth in ways that are not inflationary or do not stunt the very production of wealth.

For Lonergan, profit is the result of the dynamic performance within and

between circuits of productive activity and of payments. The normal profit of a constant state allows for businesses to pay costs and set aside what will be needed for future repairs, equipment, and maintenance. Shifts in productive activity begin with efforts to improve efficiency, but major shifts occur with innovations or a series of innovations in the surplus circuit, the circuit that produces goods and services that will accelerate the basic circuit and the emergent standard of living. For Lonergan, the distribution of wealth occurs with the major expansion of the basic circuit and the rise in the standard of living for all. However, the basic expansion cannot occur without a prior major surplus expansion. So, Lonergan's analysis requires a period of investment in the major surplus expansion, where the focus is on supporting the surplus innovation. This must not be cut short by investing in expanding the basic circuit until the major surplus expansion has reached its peak. This is understood as an anti-egalitarian phase, and it is what capitalists have tended to do well.<sup>345</sup>

The real challenge emerges in the shift to the egalitarian phase. This is when an understanding of the function of profit is essential. Profit as pure surplus income emerges from a major surplus expansion, but its ultimate function is to act as a social dividend by way of the shift to a major basic expansion and the rise in the standard of living for all. The decisions to invest in the major surplus expansion involved the redirection of increased income from wages to savings that would make investment financing available to further the surplus expansion. These were decisions not to spend

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<sup>345</sup>Lonergan, *Macroeconomic Dynamics*, 82.

increased income on basic productive activities, as it would have an inflationary effect on the price of basic goods and services, and it would cut off the major surplus expansion upon which the major basic expansion depends. After the major surplus expansion has reached its capacity, however, the basic productive capacity begins to be able to handle the increased demand that it could not handle before the major surplus expansion had peaked. At this point, income can shift to the basic circuit, with the gradual reduction of surplus activity. As a result, surplus activity settles in at a constant higher rate, but it does not continue growing while the major basic expansion is underway.

With the major basic expansion, the pure surplus income or profit of the major surplus expansion reduces to zero, but this requires that decisions are made that allow the increased income from the surplus expansion to be invested in a major basic expansion. This shift to what Lonergan calls an egalitarian phase is what capitalist economies have never done well.<sup>346</sup> The capitalist understanding of the market mechanism involves the assumption that the distribution of wealth will occur as part of the automatic processes of the mechanism. This includes the idea that the benefits of producer wealth will “trickle down” to the broader society. For Lonergan, this notion does not recognize that the major surplus and major basic expansions need to be

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<sup>346</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, lxviii. Lawrence refers to the resistance to shift to the major basic expansion as being the “core of the socialist grievance against liberal capitalism.”

democratically and ethically managed.<sup>347</sup> Further, the profit that emerges in the major surplus expansion must be understood in its long-term function as ultimately being a social dividend that must (ethically) be invested during the major surplus expansion and must (ethically) be allowed to decrease during the major basic expansion that raises standard of living for all.

The result of the misunderstanding of the function of profit as social dividend is that, during the transition to the major basic expansion, businesses react to the reduction of pure surplus income by draining the basic circuit of the income it requires for a major basic expansion. With the reaction of business to the shift to a major basic expansion, there is a similar misunderstanding that the benefits of the major surplus expansion have their proper function in an increase in the purchasing power and access to basic products that will raise the standard of living.<sup>348</sup> Beyond cutting off the major basic expansion, the effort by surplus businesses to prevent the shift to the major basic expansion leads to the search for external markets for export, massive lay-offs as a cost-cutting measure, and an appeal for government support by way of subsidies or tax breaks. All of these efforts have the result of draining the basic circuit, so that businesses collapse, prices rise, and the standard of living does not improve.

This ignorance [of the pure cycle] fosters the two-sided blunder of exaggerating the phase of the major surplus expansion and ‘systematic profits’ into a boom, and of reducing what from a normative viewpoint is

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<sup>347</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, lxvi.

<sup>348</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, lxv.

supposed to become a basic expansion (with a higher standard of living for workers involving neither unemployment nor inflation) into a slump (recession, depression, crash). Moreover, what makes policies on the balance of foreign trade (MD:ECA 165-73) and deficit spending paid by taxes (MD:ECA 173-75) problematic for Lonergan is that they also regularly offer ways of misinterpreting the meaning of profit as a social dividend.<sup>349</sup>

There is a similar reaction by labour or other groups to the rise in pure surplus income in a major surplus expansion. The reaction is that the wealth should be shared, but there is no recognition that this demand will prematurely cut off the eventual benefits for the community as a whole.

#### 4.8.2 Profit and the Economic Good of Order

Economic orders are goods of order, and this notion is important to understanding the role of profit as a social dividend. That is, as goods of order, economies provide for particular goods, desires, and needs to be met regularly. Also, these particular goods must be met increasingly, as communities grow. The economic good of order functions to provide a standard of living that is improving as the productive activities of the circuits develop and shift. It is dynamic, developing, and growing. Further, this dynamism is normative in that it has its own inner regularity and pattern; however, it is not automatic. The dynamism of the economic order must be

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<sup>349</sup>Lawrence, "Editors' Introduction," in *Macroeconomic Dynamics*, lxvi. The references in the quoted statement to MD:ECA are to sections of *Macroeconomic Dynamics*.

understood in order to be managed well and responsibly.

Patterns of intelligence and cooperation make up the basic tension of goods of order, the second level of the structure of the good. In the economic order, this plays out in the productive activities of the circuits, along with the circulation of payments and financing. Innovation and collaboration allow for the creation of technologies that transform surplus and basic productive capacity and accelerate the rising standard of living. These ideas and relationships become increasingly complex as they develop, yielding levels of surplus production that accelerate the lower levels. Surplus innovations or series of innovations can lead to major surplus expansions that must be managed by the decisions of high income earners to invest in it until it has reached its capacity. Then the shift to the major basic expansion will involve the decisions of all to invest in allowing for the widespread benefits of increased basic productive capacity to be felt. The key point to remember about the economic order is that the goal is to provide an adequate and improving standard of living for all people and that this requires intelligent and responsible management of the circuits.

The economic order has a relative autonomy, ethically, in that it has its own inner norms and its proper functioning, and it provides the conditions that allow people to organize socially in order to manage the well-being of the community. But economic relations also exist in the context of broader social, cultural, and political relations that have an influence on the decisions made in the economic order. These higher norms belong to the political realm where their distinct goals and functions must be

recognized; if they are not, then the political order can be used to direct the economy in ways that are contrary to its proper functioning. For Lonergan, the economic order functions best when it is democratic, when all people are informed by good economic theory and are able to participate in intelligently and responsibly managing the circuits and phases.

It is important to reiterate that the growth of the economic order and the expansions of the circuits are different from the liberal capitalist ideas of continual growth. Profit functions as a social dividend in an economy so that there is an eventual improvement in the standard of living for all. This improvement is different from the kind of consumer mentality of the Western world that involves an ongoing accumulation of goods that have a questionable influence on the quality of life. An improving standard of living is the result of investments in communities and regions. These investments support the ideas and relationships that are basic to economies, and they set the conditions for the broader relations and ideas that allow people to live together and provide for the well-being of the whole in a meaningful manner. So, profit and economic life are not defined by the first level interests of providing ongoing particular goods. They are defined by the broader second level dynamics of ideas and relationships that play out in the circuits and phases of productive activity and exchange. These dynamics are further understood in the broader context of politics, culture, history, ecology, and cosmology, as the third level of value critically reflects on how well the economic order is meeting its goal.

#### 4.8.3 The Ethical Obligations of Profit

In terms of the function of pure surplus income as a social dividend, profit functions on the second level of the good, as defined in terms of the dynamics of the economic good of order. The function of profit is set within the context of the circuits and their phases, with the goal of providing an adequate and improving standard of living for all. The actual, practical function of profit, then, is to increase a society's capacity to provide for increasingly broad ranges of needs that set the conditions for higher goods to be achieved. Achieving this goal requires that cooperative structures are in place that provide the complex relationships of innovation and collaboration that make up the circuits of productive activities and account for their phases. It also requires the broad participation of people in making the decisions to manage these cooperative schemes well. Further, achieving this goal requires an explanatory framework for understanding the cooperative structure of the economic order itself, so that the management of these cooperative schemes is not only democratic, but intelligent.

In its capacity of providing a framework for understanding the cooperative structure of the economic order, an explanatory economic analysis identifies the ethical obligations involved in that order. As Melchin states, "the economic explanations themselves articulate forms of human cooperation toward goals and it is this dynamic relationship between cooperative structure and goal which is the essential meaning of 'value' in the social sense. The explanandum of economics is 'value.' To achieve their objectives, economists need to recognize this fact and continually search out heuristic

and explanatory tools which are appropriate to understanding cooperative social schemes.’<sup>350</sup>

The ethical obligations are the decisions and actions required to achieve the goal of an economy. Further, these ethical obligations are fundamentally social, involving decisions that are grounded in our economic relationships and that are part of broader social and cultural networks of relationships. So, the lack of an adequate explanatory economic analysis makes it impossible to identify precisely the ethical obligations and principles that are to be followed in order to achieve the economic goal. This is central to Lonergan’s concern about the application of ethical principles from outside the actual activities of the economy. For Lonergan, ethical principles must be grounded in the economy itself, otherwise good intentions could have profoundly destructive results.<sup>351</sup>

Profit, in its function as the social dividend, has its own obligations that must be met in order to achieve the broader economic goal of an adequate and improving standard of living for all people. This involves understanding the distinction between normal profit and pure surplus income, and it involves directing pure surplus income in responding to the phases of the circuits, to allow for a major surplus expansion to reach its peak and for the shift to a major basic expansion. The direction of pure surplus income takes place in the decisions to divert increased surplus income to savings in

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<sup>350</sup> Melchin, “Economies, Ethics, and the Structure of Social Living,” in *Humanomics*, 25.

<sup>351</sup> Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, xxviii.

order to invest further in the surplus expansion. Once the major surplus expansion has peaked, further decisions are required to allow for a shift to a major basic expansion, meaning that pure surplus income will reduce to zero, and the surplus circuit will function at a constant but higher level of productive activity. Increased basic productive capacity can then meet an increased demand for basic products without an inflationary result. Further increases in basic supply provide increased basic income by way of wages. Higher levels of surplus and basic incomes provide investment opportunities for cultural institutions. This investment supports the creative capacity of a society to allow for the additional innovations that promote surplus expansions. It also sustains the meaningful relations that are essential to the cooperative structures of goods of order.

The ethical obligations that are required in response to the function of profit as social dividend must be met democratically. The full participation of people as producers, labourers, financiers, and consumers, who make decisions about how, when, and where to spend or invest income, directs the shifts in the productive activities of the circuits and either facilitates or frustrates those shifts. These decisions are rooted in the dynamics of the economic order, and they need to be informed by an explanatory analysis in order to achieve the economic goal. They must also be broadly democratic, as the participation of all in economic life is required for the kinds of innovations and cooperation that make up the basic dynamism of the economic order. Innovation is the key creative factor in an economic order that allows for economic growth and

development to take place.<sup>352</sup> The exclusion of people or groups of people from participating in economic decisions or economic activities jeopardizes the possibility of economic development.<sup>353</sup>

The decisions to invest in a surplus innovation and to support the resulting major surplus expansion, then, require an understanding of profit that transcends the limited notion of a reward to upper management or a return to shareholders.<sup>354</sup> Profit is fundamentally an investment in communities, and it functions within the large economic goal of providing and improving the capacity for communities to meet their needs. It does not exist if there are no innovations that are worth investing in, nor if there are no networks of relationships of cooperation that allow production, exchanges, and finance to take place. Profit also requires that people are free to participate in economic processes and to make intelligent decisions about how to meet communal needs

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<sup>352</sup>Anderson and McShane, *Beyond Establishment Economics*, 125. They state, “In Lonergan’s analysis of a properly run economy, innovation is the most significant de-stabilizing factor.”

<sup>353</sup>Jacobs makes this argument, as well, in discussing the economic consequences of discrimination based on race, gender, ethnicity, religion, etc. This exclusion has the effect of preventing the kind of differentiations needed in order for economies to develop. See Jacobs, *The Nature of Economies*, 32-33.

<sup>354</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, lxix. Lawrence states, “Contrary to ‘supply-side’ economics [Lonergan] diagnoses the failure of capitalist managers to understand that profit as pure surplus income is not the property rewarded to individuals, but a social dividend. When capitalist expansions thereby are exaggerated into booms that can only end in slumps, perfectly good, but less powerful and smaller, businesses lose out along with the masses of people (MD:ECA 80-86).”

recurrently. This challenges the narrow, interest-based views of economics and of business that have dominated liberal capitalist societies in recent history. Further, it does so without diminishing the important function of profit in economic growth and development. Profit is still directed to increasing economic growth and development. However, this growth is not directed toward the rich getting richer in an automatic process where the benefits supposedly “trickle down” to the rest of society. It is an intelligently, responsibly, and democratically managed dynamic process of developing circuits of productive activities and their phases, which provide an ever-improving standard of living for all people. This is the ethical obligation and social responsibility of the economic order.

Furthermore, this notion of the function of profit and the economic goal transcend notions of income redistribution that are dependent on government regulation or other demand-side approaches. While acknowledging that profit is important to economic growth, demand-side approaches do not possess the explanatory analysis to make the distinction between normal profit and profit as pure surplus income. Further, the demands to redistribute the increased income from a major surplus expansion can often be made prematurely, cutting off the surplus expansion and preventing the real benefits that would arise from a shift to a major basic expansion.<sup>355</sup> This, unfortunately, defeats the very aim that demand-side approaches claim they are trying to accomplish, and it further highlights the group bias of some who are concerned more with increasing

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<sup>355</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, lxix.

their share of wealth than that of the entire community.

#### **4.9 Culture, Value, and Economic Development**

Although the economic order has its proper dynamism, there is a significant influencing role of culture in reinforcing and accelerating this dynamism.<sup>356</sup> There is an essential visionary and imaginative function of culture, which allows reflections on the economic order and other social orders in light of progress and decline in history.<sup>357</sup> The meaning and value traditions of various contexts arise from the ways of living together of different people in different times and places. Our living together involves working together for communal well-being. Reflection on these ways of being together, on our understanding of how economies work and what needs to be done for them to work well, leads to the sorts of innovations that have been fundamental to economic progress.

There have been misunderstandings about how economies work and what to do to improve economies, and this misunderstanding indicates a need for a sufficient macroeconomic analysis. It also indicates a need for further cultural reflection. This process would require the massive educational effort that Lonergan refers to in his

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<sup>356</sup>The importance of culture and of converted subjects in the proper functioning of the economic order is addressed in Patrick H. Byrne, “Economic Transformations,” *Religion and Culture*, 327-348. Byrne claims that “the most fundamental conditions for economic prosperity are in fact converted human beings.” He further highlights “how it is that conversions, and cultural control of meanings by converted subjects, are fundamental to Lonergan’s vision of the economic problem.” (327)

<sup>357</sup>McShane discusses the “cultured community” with “creative imagination drawing on the full range of practical experience,” in *Economics for Everyone*, 138-139.

macroeconomic analysis.<sup>358</sup> Further, this educational effort would involve a reorientation of disciplines, beginning with a concretely communal introduction of children to their own dynamic process of questioning,<sup>359</sup> to a collaborative reorientation along the lines of that which Lonergan outlines in *Method in Theology*, that of functional specialization. This educational effort requires and reinforces personal and communal conversions to authenticity that would shift our patterns and habits of knowing and doing in economies and broader social and cultural contexts. Authenticity, for Lonergan, involves dedication to what he calls the “transcendental precepts,” which he identifies in his discussion of progress and decline. He states,

Progress proceeds from originating value, from subjects being their true selves by observing the transcendental precepts, Be attentive, Be intelligent, Be reasonable, Be responsible. Being attentive includes attention to human affairs. Being intelligent includes a grasp of hitherto unnoticed or unrealized possibilities. Being reasonable includes the rejection of what probably would not work but also the acknowledgement of what probably would. Being responsible includes basing one’s decisions and choices on an unbiased evaluation of short-term and long-term costs and benefits to oneself, to one’s group, to other groups.<sup>360</sup>

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<sup>358</sup>Lonergan, *Macroeconomic Dynamics*, 119. Lonergan states, “Now to change one’s standard of living in any notable fashion is to live in a different fashion. It presupposes a grasp of new ideas. If the ideas are to be above the level of currently successful advertising, serious education must be undertaken. Finally, coming to grasp what serious education really is and, nonetheless, coming to accept that challenge constitutes the greatest challenge to the modern economy.”

<sup>359</sup>McShane has regularly indicated the importance of the questioning and questing child and of questing as the grounds of education. See McShane, “Preface,” *Searching for Cultural Foundations*, xix.

<sup>360</sup>Lonergan, *Method in Theology*, 53.

As Melchin states regarding the relationship between the cultural and economic value schemes,

Economic “value” schemes derive their structure from the linkages among the meaningful events in the scheme. But these acts of meaning can only fulfill their contributions to the schemes if they are habitual. They must be woven into the full fabric of culture. The promises, incentives, and allegiances that dynamize the people in the schemes can only recur on a wide scale if they are linked with wider sets of “virtues” and “values” including friendship, respect for authority, justice, fairness, equity, and integrity. Without this wider cultural context the schemes could never have begun to function.<sup>361</sup>

The progress of economies requires that good ideas are given the opportunity to emerge, to be considered and tried. There must be a cultural context that nurtures an openness to ideas, that allows people to collaborate and take risks, that reflects on what is meaningful in our personal and communal lives. This cultural context must encourage full participation of all people in the economic and social networks, so that such biases as those of racism, sexism, and homophobia do not have the power to exclude anyone from the decisions that ultimately affect everyone. This full participation is not only essential for personal growth, it is also essential for healthy economic growth.<sup>362</sup>

The broader social and cultural context to which we refer in reflecting on the vitality of the economic order includes not just our immediate contexts, but also the

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<sup>361</sup>Melchin, “Economies, Ethics, and the Structure of Social Living,” *Humanomics*, 39. Melchin uses Karl Polanyi’s work on ancient Assyrian trade schemes to illustrate this point. He further identifies the importance of the “religious horizon of the culture” to the functioning of this trade scheme.

<sup>362</sup>See Jacobs, *The Nature of Economies*, 32-33.

“wider context of nature and history.”<sup>363</sup> The processes of nature and of history are the ground for our livelihoods. The processes of history involve the complex dynamics of progress, decline, and redemption as they manifest and interact in various times and places. The processes of nature include the vastness of the emerging universe and the subtle complexity of ecosystems, which are basic to our existence. Nature is often considered in economics as a “resource,” that which provides the raw materials for what is produced and consumed.<sup>364</sup> Furthermore, the effects that economic activity have on nature are considered to be “externalities,” or outside of what is properly economic.<sup>365</sup>

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<sup>363</sup>Melchin, “What Is ‘The Good’ of Business?” *Anglican Theological Review*, 58.

<sup>364</sup>On the matter of economics and ecology there has been much written in recent years in various fields of study. In ethics and theology, some of the strongest voices are those of eco-feminists, process theologians, and followers of Thomas Berry. Berry speaks of the “earth deficit” as a consequence of unsustainable economic activity: “This deficit in its extreme expression is not only a resource deficit, but the death of a living process, not simply the death of a living process, but of *the* living process, a living process that exists, so far as we know, only on planet earth. ... Economics on this scale is not simply economics of the human community, it is economics of the earth community in its comprehensive dimensions.” See Thomas Berry, *The Dream of the Earth* (San Francisco: Sierra Club Books, 1988), 72.

<sup>365</sup>There has been growing criticism of the system of measuring economic growth known as the Gross Domestic Product (GDP), for a number of reasons, but regarding ecology, critics have noted that this “growth” includes activities that have destructive effects on the planet. It is argued that there needs to be a more accurate measure that takes into account different types of productive activities that are not currently measured (for instance, women’s domestic work) and that considers ecologies as internal to economic concerns. See John Cobb, Jr. and Herman Daly, *For the Common Good: Redirecting the Economy Toward Community, the Environment, and a Sustainable Future* (Boston, Mass.: Beacon Press, 1987); Marilyn Waring, *Counting for Nothing: What Men Value and What Women are Worth*, 2<sup>nd</sup> ed. (Toronto: University of Toronto Press, 1999); and Clifford Cobb, Ted Halstead, and Jonathan Rowe, “If the

However, as the context of economic life, the processes of nature and the dynamics of history set the conditions for the kinds of productive activities that are viable and meaningful. Reflections on economic life in this broader context lead to questions about how well economies are functioning in providing a standard of living for a community in a way that is sustainable for the community's livelihood, for the life processes of the planet, and for the future of all life processes. These questions force us to face the problem of how we can live together meaningfully and of what is meaningful in life.

But when we look carefully at the task of preserving and nurturing the foundations for life that have been bequeathed to us, we begin to realize that the turn outward, to the wider horizons of nature and history, leads us back inward to acknowledge the significance of the inner life of meaning of persons as the key to the very meaning of the terms "sustainability" and "self-transcendence."<sup>366</sup>

Reflections on meaning and living together meaningfully allow us to make connections between the well-being of the planet and the well-being of persons. We begin to realize that we are responsible in our decision making for both. This is central to what Lonergan means by self-transcendence, in that it is a broader sense of who we are in the context of the processes of nature and history that becomes our orienting direction; it is a radical de-centring and shift in viewpoint. As Melchin states,

There is a basic dynamism, a direction to human flourishing, that can be cultivated in the life of persons as a sensor or indicator for evaluating the

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GDP Is Up, Why Is America Down?" *The Atlantic Monthly* (October, 1995): 59-78.

<sup>366</sup>Melchin, "What Is 'The Good' of Business?" *Anglican Theological Review*, 58.

schemes of business. This is the self-transcending dynamism of persons. The movement through the three levels of moral meaning expresses a trajectory of growth out of a world defined by the self and into a world of cooperative relations among wider and wider schemes of ecology, society, and history. ... This outward quest leads us back inward to recognize that this process of growing up is a transformation in our interior life of meaning. And, as we nurture this transformation in ourselves and each other, we are rewarded with the richer and deeper capacities to experience life that come with these new horizons.<sup>367</sup>

This shift must be concretely and strategically lived out in our economic lives. It is the effort that Lonergan makes in his macroeconomic analysis, in his understanding of the structure of the good, and in his method of functional specialization.

#### **4.10 Concluding Remarks**

Lonergan's understanding of the structure of the good provides an ethical framework for situating the function of profit as a social dividend directed toward the goal of the economic order: providing and improving the standard of living for all people. This is achieved by way of an increased and developing the productive capacity to provide for the needs of all people. Lonergan's structure of the good outlines three levels or horizons of concern that have a hierarchical relationship. The first level of desire is aimed at achieving particular goods. However, the first level goals can only be achieved by entering into cooperative structures. The dynamism of cooperative structures involve relations of collaboration and innovation that are directed toward

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<sup>367</sup>See Melchin, "What Is 'The Good' of Business?" *Anglican Theological Review*, 59.

further social goals. This second level of the goods of order is the horizon upon which the dynamism of the economic order plays out. The basic and surplus circuits of productive activity and exchange and their phases involve networks of patterns of collaboration and innovation which allow the shifts and growth of productive capacity itself. This growth is managed by the decisions of producers, consumers, financiers, and labourers to support major surplus expansions until they peak and then to shift to the major basic expansions that provide the improved standard of living for all.

Understanding profit and its function as a social dividend is central to managing the economic order well. This allows for the decisions to invest in the innovations that spark the major surplus expansion so that there is increasing financial support for the expansion to reach its peak capacity in providing surplus products that will accelerate the basic productive circuit after the surplus slow down. Here, there must be a distinction between the normal profit that allows for replacements, repairs, and maintenance from profit as the pure surplus income. Profit in the second sense has its purpose in supporting the major surplus expansion until it peaks. It then must reduce gradually as the surplus circuit reduces to a constant rate and a major basic expansion is underway. Profit, then, has a function as a social dividend that properly is an investment in the community and whose benefits should be felt by all people.

The structure of the good involves the further level of value, whereby critical reflection on the performance of the goods of order allows us to judge whether the proper economic goals are being met. Further, the level of value involves the role of

culture in establishing the kinds of habits of virtue, relationships of meaning, friendships, and religious values that reinforce the social structures that are meant to provide for the good of all.

Lonergan's structure of the good and his macroeconomic analysis provide a set of tools for the democratic, intelligent, and responsible direction of the economic order. Further, Lonergan's framework and analysis transcends the limits of the liberal capitalist notion of the market mechanism and the profit motive on one hand, and the incomplete supply-side concerns about redistribution of income on the other. Lonergan does this by affirming the central role of profit in the dynamism of productive activities and their phases. He further affirms the proper social value of profit as serving to provide for the needs of all people by way of a continually improving standard of living for all.

In the next chapter, I will investigate the theological considerations that emerge from the relationship of Lonergan's ethical framework and his economic analysis. This points toward a further strategy for the kind of educational shifts that are needed for a reorientation of economics.

## **Chapter Five**

### **Theological Method—Toward a Systematic and Theological Economic Ethics**

#### **5.1 Introduction**

I began this thesis with a critical evaluation of three significant voices in Canadian Catholic social ethics on economics. I state that these voices, the Canadian Catholic bishops, Gregory Baum, and Moses Coady and the Antigonish Movement, all raise important concerns and offer significant insights regarding theological and ethical principles in response to economic problems. I will briefly revisit these three voices.

The Canadian Catholic bishops, mainly through the Social Affairs Council, have offered many statements on the economy concerning regional, national, and international issues. The 1970s and 1980s saw regular calls from the bishops for the economy to reflect the gospel message of justice in providing for all people, particularly those most in need. The bishops criticized the capitalist approach as putting profit and capital before labour and communities. They challenged the increasing disparity between the rich and poor, and they urged the democratic participation of people in attempting to solve economic problems. The bishops offered theological and ethical principles as guidelines for economic decisions, but they were aware that social and economic analyses were required to understand the situation and to respond effectively. The bishops' call to a reorientation of values that would put people and communities before narrow self-interest and the pursuit of profit is their key strength. Their limit, however, is that they have no alternative macroeconomic analysis to offer a concrete

challenge to the current economic situation. They rely on social theory and demand-side approaches that give a partial response but fall short of an innovative alternative.

Gregory Baum's work builds on that of the bishops, offering support for the bishops' efforts and claiming that their work has been part of a shift to the left in Catholic social theory. He supports the criticism of the capitalist approach, but he takes the challenge for an alternative further in looking to the emerging social economy. Baum's economic response arises from his critical theological perspective that is influenced by political and liberation theological approaches. For Baum, the theological and ethical call is for an emancipatory commitment that will allow for the empowerment and liberation of people in a democratically run economic and political order. Baum looks to the social economy as a response to economic crises that is emerging from the third sector, or the most marginalized people. It is locally-based and community-oriented. Baum uses the work of Karl Polanyi as offering analytical support to social economics. Polanyi challenged the notion of the market as an automatic mechanism that would lead to the common good. Polanyi claims that this idea allowed for the disembeddedness of the market from communities, leading to social and cultural disruption. For Baum, the social economy is part of the "great transformation" that would see the re-embedding of the economy and the democratic empowerment of people. Baum's key strengths lie in the critical theological call to emancipatory commitment and the support of the social economic approach. His limit lies in the inability of the social economy to offer a macroeconomic alternative to the capitalist

approach and for it to be continually dependent on private or government support.

Moses Coady and the Antigonish Movement were ahead of their time in offering a concrete empowering response to economic breakdown in the east coast Canadian region. Coady's inspiration was his own upbringing in this region and his Catholic tradition that promoted human dignity and justice. Coady promoted the ongoing education of people in an effort to empower them to take control of their lives and to overcome dependency. The Antigonish Movement allowed for an organized adult education program that facilitated this empowerment, particularly by assisting in the development of cooperatives for farmers, fishers, and other producers and consumers. The theological and ethical principles that guided these efforts were rooted in the Catholic tradition, which promoted justice, dignity, and the God-given gift of reason. Coady and the Antigonish Movement managed to contribute to the development of cooperatives, credit unions, and unions that promoted economic empowerment and democratic participation and decision-making. This movement promoted community-building and empowered a region that was economically marginalized. The limit of Coady and the Antigonish Movement's approach, however, was its lack of a macroeconomic analysis that would address the broader issues that were behind the disparity of the east coast region. Such an analysis is needed in order for such a social economic response to provide an ongoing and viable alternative to economic problems.

These three voices offer important contributions to addressing economic problems. However, they do not go far enough to show how their theological and ethical

principles are to be applied in order to achieve their goals. I conclude that there is a need for an innovative macroeconomic analysis that could carry forward the concerns of the three voices and could better allow for their goals to be achieved.

I suggest that Lonergan's macroeconomic analysis offers such an innovative response. I outline this macroeconomic analysis in chapter two, drawing out the key relationships between economic variables. These relationships involve two distinct circuits, basic and surplus, and the circulation of production, payments, and finance between and among these circuits. I also discuss the dynamism of these relationships, given that the circuits involve different phases of activity. In chapter three, I extend the conversation of Lonergan's macroeconomic analysis to discuss the function of profit in an economy. This function highlights the unique role of profit in this analysis as ultimately being a social dividend. Its purpose is for reinvestment in the expansions that allow for a rise in the standard of living for all people. It does so by initially investing in a major surplus expansion that must reach its peak and shift investment to a major basic expansion that will produce the goods and services that will enter the standard of living. Knowing the rhythms of the circuits and the role of profit will allow all people to participate in responsibly managing the economy so that it raises the standard of living for everyone.

In chapter four, I discuss Lonergan's understanding of the structure of the good and its function as a framework for situating the economic order among networks of relations of goods. Economic goods of order are identified as networks of collaboration

and intelligence that regularly provide a standard of living for communities by way of recurrent schemes of production, payments, and finance. The goal of the economic order is to provide an adequate standard of living and to work at improving that standard of living for everyone on an ongoing basis. While regularly meeting basic needs and desires (first level goods), economic goods of order transcend individual interests, as they are sustained by the fundamentally social patterns of cooperation and intelligence (second level good or order). The broader context of cultural conditioning schemes functions in a third level capacity to sustain and develop the economic goods of order by fostering broader networks of cooperation and innovation motivated by a sense of deeper, shared meanings and by providing the imaginative creativity to foster improvements. Economic goods of order, however, do not operate automatically, and the critical judgements of values can only point to a direction for change. Therefore, an explanatory understanding of economic goods of order is essential in order to manage economies intelligently and to make choices that are communally responsible. It is the very functioning of economic orders that grounds ethical obligations regarding how the ultimate goal of providing and improving the standard of living is to be achieved.

In light of the broader context of this discussion, that of Canadian Catholic social ethics, and the broader theological context of Lonergan's own work, this chapter addresses how theology fits in to the relationship of ethics and economics. In this chapter, I respond to this question methodologically, turning to Lonergan's method of functional specialization, which is a method of dividing the tasks of disciplines in an

effort to promote collaboration. It is based on the operations that people perform in their efforts to make sense and act. This method differs from the typical division of disciplines into field or content-based specializations.<sup>368</sup> Field specialization involves the division of disciplines into areas of relevant data, which get further subdivided as the field expands. Subject specialization divides the discipline according to the results of investigations as their content emerges. Both of these divisions involve specialization that is increasingly remote from other specialties within disciplines, whereas functional specialization provides a ground for collaboration.

In this chapter, I return to the positions identified in chapter one in an effort to highlight how theology functions in the three approaches. I review the strengths and limits of these approaches and conclude that, on their own, theological principles do not provide concrete applications regarding economics. I then highlight Lonergan's contribution with his unique methodological approach. Lonergan's theological method situates theological principles, such as those guiding Canadian Catholic social ethical positions (for instance, the preferential option for the poor<sup>369</sup>), as part of a larger interdisciplinary collaborative framework that requires a systematic economic response to the theological call for social and economic justice. This method is grounded in the

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<sup>368</sup>Lonergan discusses the distinctions between field, subject, and functional specializations in *Method in Theology*, 125-126.

<sup>369</sup>As Robert Doran states, the preferential option for the poor can be understood as a theological and ecclesial doctrine, as it has been adopted by official church teaching and it has become central to Christian theological praxis. Robert Doran, *What Is Systematic Theology?* (Toronto: University of Toronto Press, 2005), 40.

structure of inquiry itself, with the eight specialities reflecting the operations of consciousness. I outline this method in an effort to map out the relationships between theological principles, a systematic economic response to economic problems by way of a macroeconomic analysis, and ethical obligations grounded in this analysis. I conclude that this method is Lonergan's second major contribution to advancing the project of Canadian Catholic social ethics on solving economic problems, and I expand on Lonergan's theological vision as a broader context for his method.

## **5.2 Review of Canadian Catholic Social Ethics Positions**

This section outlines the three positions in Canadian Catholic social ethics in an effort to draw out their theological bases and methods and to identify strengths and limitations.

### **5.2.1 The Theological Approach of the Bishops**

The bishops' discussion of social and economic problems, by way of their pastoral statements from the 1970s and 1980s and more recent statements, has developed and shifted with changing contexts (social/economic, political, cultural, and theological), but their call to live out the gospel message of justice has been consistent.<sup>370</sup> The emergence of political and liberation theologies and the Second

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<sup>370</sup>The phrase "gospel message of justice," is used in "From Words to Action" explicitly, but it is a theme that runs through the bishops' statements. A history of the development of the pastoral letters from the Social Affairs Commission of the CCCB is

Vatican Council influenced the bishops' approach to social and economic issues by bringing about an awareness of the structural and systematic aspects of social and economic problems. These developments also allowed the bishops to make links between domestic and international social and economic issues, as well as between economic and ecological issues, although this was a later development. As Gregory Baum has noted, the early statements of the bishops were part of the broader "shift to the left" in Catholic social thought that led to the development of a Canadian critical social theory.<sup>371</sup> Further theological developments, such as the rise of contextual theologies, informed the later efforts of the bishops' Social Affairs Commission.<sup>372</sup>

The bishops' statements are responses to social and economic problems, but they are grounded in theological principles that carry ethical obligations. In appealing to the gospel principles of justice, equality, human dignity, the option for the poor, and the

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outlined in Gunn and Lambton, *Calling Out the Prophetic Tradition*.

<sup>371</sup>Baum, *Compassion and Solidarity*, 52-53.

<sup>372</sup>The document released on the fiftieth anniversary of the Social Affairs Commission acknowledged the challenges for the Canadian Bishops entering the new millennium. These included recognizing the need for further women's participation and perspectives, recognizing the significance of the ecological crisis, and recognizing the need for further lay participation in outlining the Canadian contextual issues and the Canadian Catholic responses. See Gunn and Lambton, *Calling Out the Prophetic Tradition*, 43-44. In the years following, the Social Affairs Commission has issued letters that have attempted to implement those improvements. For instance, the statement on ecology issued in 2003 involved a consultation process whereby lay theologians and religious, along with the bishops, were consulted in order to draft the statement. See Social Affairs Commission, CCCB, "'You love all that exists...all things are Yours, God, lover of life,' A Pastoral Letter on the Christian Ecological Imperative," (Oct. 4, 2003).

dignity of labour, the bishops assess the social and economic problems of the time, focussing particularly on the Canadian context. They identify these problems as indications of moral failures that have structural roots and consequences. The bishops make frequent reference to the gospels from which these principles emerge. The gospel grounding and the support of the Catholic social teaching tradition led the bishops to identify the ethical obligations of Christians to participate in the solutions to social and economic problems.

To illustrate the bishops' theological approach, I refer to their statement "Ethical Reflections on the Economic Crisis," (1983).<sup>373</sup> The theological principles of the preferential option for the poor and the dignity of labour are central to the bishops' statement "Ethical Reflections." The bishops ground these doctrines in the gospel, noting the example of Jesus in his concern for the poor and outcast and his own identity as a labourer. The bishops move on to an analysis of the economic crisis of the time in light of these theological doctrines. They judge the economic crisis to be a moral crisis, whereby the poor are increasingly marginalized and human dignity is increasingly diminished by rising unemployment and by the priority of capital over labour.<sup>374</sup> They go on to outline strategies for economic and political policies, and they identify the need for an alternative economic vision that would address the economic and moral crisis in

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<sup>373</sup>CCCB Social Affairs Commission, "Ethical Reflections on the Economic Crisis," in Baum and Cameron, *Ethics and Economics*, 3-18.

<sup>374</sup>CCCB Social Affairs Commission, "Ethical Reflections on the Economic Crisis," in Baum and Cameron, *Ethics and Economics*, 9-10.

ways consistent with the theological principles that they hold.

Further, for the bishops, the moral disorder revealed by the economic crisis is one where the function of an economy in serving the needs of all people is being neglected as the maximization of profit becomes the economic priority. The priority of labour is overtaken by the priority of capital. The option for the poor is neglected as the economic policies reflect the perspectives and interests of the privileged. For the bishops, this moral disorder requires a shift in values that would place the needs of all, and especially of the poor and marginalized, at the centre of economic and political policy directives.<sup>375</sup>

The bishops' approach is grounded in theological principles, but it is also situated in the social and economic context of the time. The gospel principles and theological doctrines lead the bishops to a judgement of the economic crisis as also being a moral crisis, which requires an ethical response. However, identifying gospel principles and theological doctrines, such as the option for the poor and the dignity of labour and calling for a moral response is not sufficient to meet the problems that the bishops wish to address. The bishops themselves rely on economic and social scientific analyses in order to gain an understanding of economic activities and policies in order to make their suggestions for alternative strategies and vision. That is to say the theological doctrines themselves do not provide solutions to the economic crisis. Their function is

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<sup>375</sup>CCCB Social Affairs Commission, "Ethical Reflections on the Economic Crisis," in Baum and Cameron, *Ethics and Economics*, 13.

to guide the commitment of Christians to try to understand the economic crisis and to respond constructively.

Some problems emerge from this approach; they involve the relationship among theology, ethics, and economics. The bishops' grounding in gospel principles and theological doctrines affirms a Christian commitment and points toward the need for an ethical response. However, the ethical response must not merely be an application of ethical norms to any given economic analysis. The ethical response requires a *better* analysis. It requires an analysis that is explanatory, that sets out economic variables and relations, that recognizes economic dynamics, and that is empirically grounded. Further, the ethical response is not a matter of just applying ethical norms to an economic analysis, but it involves identifying the ethical obligations that are *grounded* in the analysis itself.

So, for instance, the bishops' affirmation of the principle of the preferential option for the poor affirms the Christian principle that the perspectives and needs of those who are poor, marginalized, and exploited must be central to the Christian community and to the Christian response to social and economic problems. This doctrine points us in a direction of ethical response, but on its own it does not map out that response. The bishops acknowledge the need for the participation of all, particularly the poor, in identifying solutions. They also acknowledge the need for social scientific and economic analysis in coming to solutions. However, any analysis will not do. The bishops are highly critical of monetarist approaches and policies, as well as the Marxist

socialist approach. Further, they seem to go beyond the Keynesian social democratic approach with their focus on decentralization. They acknowledge that an alternative vision is needed, and they call for creativity, but they can only indicate general directions.

Further, the bishops' view on the function of profit is guided by the theological call for justice, equality, human dignity, the option for the poor, and the dignity of labour. They challenge the profit motive as a guiding economic principle, they challenge the priority of capital over labour, and they challenge supply-side solutions that put more money in the hands of the privileged. But, again, theological principles neither indicate the function of profit, nor how it operates concretely: they affirm a commitment. The bishops' position implies the ethical obligation that profit should be used for the benefit of all. However, without an adequate economic analysis, efforts to implement this ethical obligation could lead to further economic problems that make the theological goals even more remote. Without an adequate explanatory analysis, the bishops' understanding of the economic situation and its suggestions for change lack the precision required to identify how profit functions for the well-being of all or how the preferential option is lived out in an economic order.

### 5.2.2 The Critical Theological Approach Outlined by Gregory Baum

Gregory Baum affirms the bishops in their efforts to address social and economic problems of their time, and he situates the early work of the bishops as part of

a shift to the left in Catholic social thought. Furthermore, Baum acknowledges that the bishops' approach had to adjust to the emergence of critical theologies, which highlighted the need to include previously excluded perspectives and concerns, such as feminist perspectives, Native perspectives, and ecological perspectives in the discussion of social and economic problems. For Baum, the theological method of critical theology is based in an "emancipatory commitment," and the starting point of this commitment is solidarity with the poor in light of the gospel's liberating message.<sup>376</sup> This commitment is consistent with the bishops', although Baum goes further in seeking an alternative vision for the economy by pointing to the social economy approach and the work of Karl Polanyi. The social economy approach seems to Baum to be the best approach to live out an "ethics of solidarity" that is communally, culturally, and religiously grounded.<sup>377</sup>

As with the bishops, the theological approach outlined by Baum is grounded in gospel principles and theological doctrines. However, Baum more strongly affirms the central place of solidarity with the poor and the essential need for a locally-based, community-building, and democratically-controlled approach. Baum affirms the work of social economic movements, such as community economic development and cooperative movements, as hopeful directions for change.

The critical theological method of emancipatory commitment, the ethics of solidarity, and the social economy approach give a general framework for Baum's

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<sup>376</sup>Baum, "From Solidarity to Resistance," in *Intersecting Voices*, 52-56.

<sup>377</sup>Baum, *Karl Polanyi on Ethics and Economics*, 69-83.

theological, ethical, and economic analysis. Baum places the perspectives of the marginalized at the centre of theological reflection and response, in dialogue with gospel and theological traditions, in order to provide a starting point for understanding and solving social and economic problems. Baum is strongly informed by the work of liberation, political, and contextual theologies, all of which take experience of God in the world, and specifically in relation to suffering and exploitation, as central experiences for theological reflection and response. Baum is also influenced by and supportive of (although not in an uncritical way) the Catholic social teaching tradition, which he also sees as taking a shift to the left in response to the emergence of liberation theologies and Vatican II. Baum links the Catholic social teaching tradition and the work of Karl Polanyi in their efforts to affirm human freedom as lived out communally in grounding and transforming social relationships of trust and cooperation.<sup>378</sup> For Baum, this is essential to an ethics of solidarity, which is grounded in relationships of cooperation and in community-building and which promotes economic decentralization, subsidiarity, and democracy.

For Baum, the method of emancipatory commitment and the ethics of solidarity find a hopeful economic response in the social economy approach and in the work of Polanyi. This economic response addresses both social and economic needs as fundamentally connected, and it understands the function of profit as being profoundly social, contributing to community development and democratic participation.

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<sup>378</sup>Baum, *Karl Polanyi on Ethics and Economics*, 53.

A key limit to this approach, however, is the reliance of social economic programs upon public and private funding. Although the development and fostering of the social economy, such as the funding and support of cooperatives and community economic development, sets the conditions for what Baum would call “system-transcending reform,” the dependence on external funding limits the social economic response. A further problem is the lack of a macroeconomic analysis that can support and reinforce the social economic approach. Baum refers to John Paul II’s statement in *Centesimus annus* regarding markets. It states that markets themselves are not the problem, but it is how they are directed and controlled. Here, Baum overlooks an important problem:<sup>379</sup> the direction and control of the market depends on an understanding of what the market is and how it functions. Baum knows by studying Polanyi’s work that markets existed before the rise of capitalism and the Industrial Revolution, and these markets were “embedded” in the social and cultural relations of the communities. However, in order to be an alternative economic approach that can meet the larger macroeconomic challenges in an age of globalization, the social economy must be grounded in an alternative macroeconomic analysis of markets that is also empirically grounded.

While the critical theological approach challenges Christians to respond to social and economic problems in solidarity with the poor and marginalized, a further economic response is required to solve the structural problems that cause poverty, as structural

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<sup>379</sup>Baum, “Christians and the Economic Debate,” *The Ecumenist*, 13.

problems need systematic solutions. This is part of the theological response that carries an ethical obligation. The obligation is to work toward the systematic economic solutions and to act out of them. The systematic and structural solutions must be grounded in the concrete context, but they also need a generalized macroeconomic analysis as a framework for response.

### 5.2.3 The Theological Approach of Moses Coady and the Antigonish Movement

The work of Moses Coady and the Antigonish Movement was grounded in the context of the east coast of Canada and was deeply rooted in the Catholic social tradition. The Antigonish Movement was an adult education movement, but its main objective was the empowerment and participation of people in social and economic life. For Coady, it was a response to a theological commitment to promoting human freedom and cooperating with God's grace to create a better world. Coady challenged the economic approaches of his time, criticizing the "shoddy foundations" of *laissez faire* capitalism and the "guy wires" of social assistance programs of the welfare state, claiming that these approaches did not foster the independence and human dignity of people.<sup>380</sup> For Coady, the best way of empowering people and fostering human dignity in social life was through adult education that specifically involved cooperative development. Rather than a self-regulating market or government dependency, Coady encouraged the participation and decision-making of the people to create a democratic

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<sup>380</sup>Coady, *Masters of Their Own Destiny*, 20-21.

economic order and stronger communities.

Coady's theological approach is grounded in theological principles of freedom and human dignity and is informed by the Catholic social teaching call to social justice. These theological principles require an ethical response that seeks to create the social conditions that would foster and promote human dignity, freedom, and social justice. For Coady, the ethical response is cooperative community development. Cooperatives allow for people to take ownership over their social and economic lives, to control how their money is used, and to benefit from the reinvestment and redistribution of profits. For Coady, cooperative social and economic relations are an "aid to salvation," in that they build human relations involving human decisions about life together, and they allow for the emergence of social and economic conditions for human dignity to flourish and for sin to become more remote.<sup>381</sup>

Coady's commitment to promoting human dignity, freedom, and social justice point to the need for an ethical response in light of the economic and social challenges of his time. Coady was clearly grounded in the east coast context, and his deepest concerns were for the marginalized people of that context. As a result, Coady was able to respond to the needs and concerns of the marginalized of the east coast in ways that were appropriate to their context, that were grounded in their daily lives, and that allowed them to participate in promoting their own human dignity, independence, and interdependence. However, the problems that the people of that context faced, the social

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<sup>381</sup>Coady, *Masters of Their Own Destiny*, 144-145.

and economic problems that led to marginalization, were also problems that were structural and that further required a more general social and economic analysis. Coady's social economic approach, which lives on in the Evangeline region cooperatives and in New Dawn, goes part of the way in addressing the problems contributing to the diminishing of human dignity. But the structural conditions that allow for the ongoing marginalization of people, in the Atlantic context and the global context, must be met with a macroeconomic analysis. The commitment that the theological doctrines of human dignity, freedom, and social justice provide points us toward a response that requires systematic economic understanding before we can respond ethically to address broader economic structural problems.

### **5.3 Functional Specialization—A Strategy for Economic Reorientation**

In this chapter, I highlight the relationship of theology, ethics, and economics, in an effort to identify how theology fits into the economic-ethics relationship. I have indicated that theological principles lead us to challenge economic situations that do not achieve the economic goals that are consistent with these principles, such as providing for the well-being of all people. I have also indicated that these theological principles alone cannot solve concrete economic problems. They point us in a direction, but they do not explain how economies work. This requires an innovative macroeconomic analysis. However, the theological task is more significant than merely pointing to principles or setting out ideals. It is a task that fosters understanding and collaboration in

the broader context of human meaning and God's role in history.

Lonergan's theological approach to social and economic problems is grounded in the broader context of an understanding of the dynamism of intentional consciousness, that is, the implicit method that is operative in theological inquiry. From this grounding, Lonergan outlines a strategic methodology, which is meant to make more practical the collaborative process of discovery and response. The methodology of functional specialization situates theological doctrinal commitments in a framework of relations that guide and require innovations in ethical and economic analyses as a systematic response to social and economic problems.<sup>382</sup> Theological principles, such as justice, human dignity, and the common good, are an affirmation of a faith commitment that emerge as part of a cycle of discovery and response regarding the past, present, and future. The response to these theological principles is the innovative role of systematics in interpreting how they are understood and achieved concretely. In addressing economic problems, this systematic response requires new tools of ethical and economic analysis, as well as innovative cultural responses to sustain these commitments and the shifts in social and cultural habits that they require.

### 5.3.1 The Method of Functional Specialization

For Lonergan, the method of functional specialization is key to the strategy of

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<sup>382</sup>The method of functional specialization is outlined by Lonergan in *Method in Theology*.

interdisciplinary collaboration involving theology. It is a general methodology that distinguishes the tasks of disciplines as distinct stages moving through a cycle of discovery and response, or a movement from data to results.<sup>383</sup> In this way, it differs from the common division of disciplines by way of subjects or fields. The method of functional specialization divides the tasks of disciplines so that the relations of the tasks are more clearly identified and collaboration between disciplines has a general grounding.

Lonergan outlines this strategy as a structure of specializations based on the functional distinctions of the levels of operations in inquiry (experience, understanding, judgement, and decision). The functional specialties are research (experience), interpretation (understanding), history (judgement), dialectic (decision), foundations (decision), doctrines (judgement), systematics (understanding), and communications (experience). Each of these distinct functional tasks have their own proper goals, but they are fundamentally all interdependent in the achievement of the broader goals of any discipline.<sup>384</sup> They are discussed by McShane in the following manner:

1. *Research*: finding relevant data, written or other.
2. *Interpretation*: reaching the meaning of such data, the meaning of those that produced it.
3. *History*: figuring out the story, connecting the meanings of the writings and the doings, etc.
4. *Dialectics*: coming up with a best story and best basic

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<sup>383</sup>Lonergan, *Method in Theology*, 126.

<sup>384</sup>Lonergan, *Method in Theology*, 126.

directions...

5. *Foundations*: Expressing the best fundamental (in the sense that they are not tied to age, time, etc.) directions.

6. *Policies* [Doctrines]: relevant basic pragmatic truths, somewhat like the core of national constitutions or of tribal legends.

7. *Planning-Systems* [Systematics]: drawing correctively and contrafactually<sup>385</sup> on the strategies of the past to envisage ranges of time-ordered possibilities.

8. *Communizings* [Communications]: local collaborative reflection that selects creatively from ranges of possibilities.<sup>386</sup>

As well, the division of functional tasks takes into account the movement of discovery and response by way of the retrieval of discoveries of the past to situate the present and to set a direction for the future. The first four specialties are concerned with the movement of retrieval from the past and the second four are concerned with future directions and responses.

The eightfold division of labour of functional specialization allows for specialists in all disciplines to collaborate with others in a way that raises the view to the larger project of living in the larger context of the dynamics of history and the emerging universe.<sup>387</sup> It is an effort to make very practical the task of solving complex problems,

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<sup>385</sup>McShane talks about “contrafactual history” as the imaginative effort to reflect on, not only what happened, but on what might have happened. See, McShane, *Economics for Everyone*, note 13, 51.

<sup>386</sup>McShane, *Economics for Everyone*, 153-154.

<sup>387</sup>The work has barely begun on Lonergan’s functional specialization, even though *Method in Theology* was published in 1972. Some efforts have been made in conferences and publications focussed on the theme, such as recent conferences at Fordham University and in Vancouver, as well as a recent edition of the online *Journal of Macrodynamical Analysis*, vol. 4 (2005), which is centred around the functional

recognizing that the task must involve all disciplines and must be fundamentally democratic.<sup>388</sup> This reorientation requires the participation of people in local communities in running their economies, as well as the adaptation of education to be grounded in concrete contexts while allowing for generalized analyses.

### 5.3.2 Theological Doctrines and Systematic Response

In Lonergan's framework of functional specialization, theological doctrines function to identify sets of commitments, such as commitments to justice, human dignity, and the option for the poor. But they also have a further function that is heuristic, meaning that they point beyond the function of doctrines themselves to other operations. Doctrines require a response that points to the need for innovation in analysis. In light of the method of functional specialization, the first four specialties set up the discovery of the relevant data of experience, the possible interpretations of the data, the history of developing meaning, and decisions on what were the best directions, given conflicting positions. The fifth specialty, foundations, takes fundamental,

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specialty "Systematics."

<sup>388</sup>Lonergan repeatedly calls for a reorientation of economics that is concrete and democratic. For instance, he states, "[A generalized macroeconomic analysis] will give new hope and vigour to local life, and it will undermine the opportunity for speculation corrupting central governments and party politics; it will retire the brain trust, but it will make the practical economist as familiar a professional figure as the doctor, the lawyer, or the engineer; it will find a new basis both for finance and for foreign trade. The task will be vast, so vast that only the creative imagination of all individuals in all democracies will be able to construct at once the full conception and the full realization of the new order." Lonergan, *For a New Political Economy*, 37.

existential positions, grounded in conversions. The sixth specialty, doctrines, makes truth or belief claims. However, the sixth specialty, systematics, is necessary in order to plan strategies for living out the meanings of doctrinal claims.<sup>389</sup> The final specialty, communications, brings these strategies to the level of community collaboration and testing.

So, the task and goal of doctrines depends on the performance of prior tasks and points toward the performance of further tasks. Also, the task of theological doctrines depends not only on strictly theological discoveries and responses. As has been stated, theological doctrines state a commitment, a stance, out of which the believer operates. The commitment to theological doctrines in response to social and economic problems involves a theological stance that seeks understanding about social and economic systems. These systems are part of the general terms and relations that occur in the tasks of the specialties. Lonergan refers to general and special theological categories—general categories involving the objects of theological and non-theological disciplines, and special categories regarding objects proper to theology.<sup>390</sup> General categories are rooted in interiorly differentiated consciousness, which accounts for distinctions among common sense, theory, and interiority. Special categories are rooted in religiously

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<sup>389</sup>The relationship between the functional specialties “doctrines” and “systematics” is highlighted in Robert M. Doran, *What is Systematic Theology?* See also Charles Hefling, *Why Doctrines?* 2<sup>nd</sup> edition, Lonergan Workshop Supplementary Issue, ed. Frederick Lawrence (Boston: Lonergan Institute, 2000; 1<sup>st</sup> ed., Boston and Cambridge, MA: Cowley Publications, 1984).

<sup>390</sup>Lonergan, *Method in Theology*, 282.

differentiated consciousness (the religiously converted subject). The terms and relations of the general categories allow for trans-disciplinary theological concern and engagement.<sup>391</sup> Further, the use of general categories occurs in any of the functional specialties.<sup>392</sup> Because the functional distinction is grounded in the predominant operational tasks and not in field or subject distinctions, systematics responds to doctrinal demands with an interdisciplinary effort in social and economic analysis.

The effort to solve social and economic problems is a quest for progress. The goal of functional specialization is to divide the tasks of achieving the ultimate goal of progress, with each task having its own proper goal that moves along the cycle of discovery and response. The task of research opens up relevant data and hands it on to be interpreted. Interpreters identify meanings that are handed on and gathered as stories. Historians pass on stories that become aligned with basic positions or counter positions. Foundations takes a stance on positions and hands on to doctrines the basis for truth and value claims. Doctrines identify commitments and point toward the further exploration by systematics to understand how they play out concretely. This understanding moves on to be communicated in varying contexts. The cycle is ongoing and all tasks are required for progress to be incrementally achieved. The discoveries of the past,

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<sup>391</sup>General theological categories extend what is generally theological to all areas involving development and history. Doran builds on this notion, outlining the larger context of a theory of history that involves God's self-communication, dialectics of history, and the scale of values. See Doran, *What Is Systematic Theology?* 98-100.

<sup>392</sup>Lonergan, *Method in Theology*, 292.

including mistakes and oversights, move toward efforts at improved future response.

Further, as the cycle progresses, there is an ongoing opportunity to “make conversion a topic” as those performing the tasks recognize the need for taking stances on progress, as well as decline and, ultimately, redemption.

### 5.3.3 Economic Reorientation: Conversions, Creativity, and Collaboration

Patrick Byrne points to the long-term vision and strategy required to address the complexity of economic problems of our time in stating the following:

When Lonergan complained that our culture has ‘no ideas’ concerning pure surplus profit, his emphasis was on the plural. Lonergan’s own work is a beginning, but further ideas are needed. Still needed are ideas which will help the converted members of our highly specialized culture know how to gain access to the data on the current state of their economies, employ the theoretical analysis to help interpret and understand the actual data and understand how they may respond within their roles in ways which are attentive, intelligent, reasonable, responsible, and loving. Such ideas can originate most flexibly and profitably with ordinary people in their economic roles, from assembly line worker to corporate or financial executive. These ideas must subsequently be subjected to the critical control of cultural norms, values, and institutions.

But are our current sets of cultural norms, values, and institutions up to the task? Are the ideals of Liberalism, Marxism or classical Christianity sufficiently liberated from biases, sufficiently nuanced, sufficiently methodical and integrative to take into account the vast array of oftentimes conflicting practical opinions, or scientific and scholarly researches about the economy? The test of time has thus far found the major contenders of cultural normativity to be wanting.<sup>393</sup>

As Byrne suggests, the need for an alternative macroeconomic analysis such as

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<sup>393</sup>Byrne, “Economic Transformations” in *Religion and Culture*, 342.

Lonergan's is a key beginning to addressing economic problems, to understanding the rhythms of the economic goods of order, and to the ethical decision-making needed to achieve the ultimate economic goal of an adequate and improving standard of living for all. There are, however, further requirements for the broad acceptance and implementation of such an alternative. The methodology of functional specialization allows for the collaborative interaction of disciplines that would engage the broader theological vision of Catholic social ethics with further cultural structures in a way that continually raises the need for converted subjects in order to solve economic problems.<sup>394</sup> It would also raise the need for an alternative macroeconomic analysis as a systematic response to the theological commitments of human dignity, the option for the poor, and justice.

To illustrate, the theological doctrines of the option for the poor and human dignity have become central to the call for the solution to economic problems in ways that attend to the voices and perspectives of those who are marginalized and that recognize the social and cultural sinful structures that perpetuate this marginalization. In fact, these theological doctrines are central to the three positions highlighted as important in the Canadian Catholic social ethics response to economic and social problems. Living out the doctrines of the option for the poor and human dignity occurs at a number of levels, and it is a significant challenge to understand how the meaning of

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<sup>394</sup>Byrne states, "There is needed a theological transformation of culture in which the four conversions are mediated by means of the eight functional specialties." Byrne, "Economic Transformations," in *Religion and Culture*, 343.

these doctrines gets lived out concretely, given the complexity of the realities involved. A collaborative interdisciplinary methodology acts as a practical tool that assists in the ongoing discovery and response at all levels of human reflection and interaction that are needed to address the concrete, lived commitments to the poor and to human dignity.

In the case of the economic goods of order, the commitments to the option for the poor and human dignity get lived out as part of a systematic response that calls for new analytical tools for understanding the rhythms of economic activities. This analysis would provide the ground for the responsible management of these economic rhythms in order to meet the goal of achieving an adequate and improving standard of living for all people. The systematic response is reinforced by the previous interdisciplinary tasks that set up the background of research, interpretation, historical, and dialectical distinctions of economic theories, informed by a broader theological vision. These tasks lead to a foundational grounding in positions about how we situate ourselves with regard to the best economic directions. The further doctrinal task identifies the principles and claims being affirmed. Systematics provides the analytical tools that allow for the meaning of these principles to be grasped. Finally, this meaning is communicated as part of the vast interdisciplinary effort to make concrete the commitments and insights that affirm and support the global project of living.

The actual schemes of economic activity, of production, exchange, and finance, are grounded in a broader vision of life, while operating to produce a standard of living for a community. As has been stated, an explanatory understanding of how these

schemes operate is required in order for them to be managed intelligently. But further, the sustained commitment to life, to the well-being of persons and eco-systems, provides the force that underpins and reinforces the relationships of innovation and collaboration that must function in order for an adequate standard of living to be achieved. The ground of properly functioning economic goods of order is indicated in the ethos of the scale of values<sup>395</sup> and is rooted in converted persons: “Lonergan’s analysis of economic functioning led him to conclude that no solution would be adequate unless it included an educational promotion of the four ‘conversions’: intellectual, religious, moral, and psychic. These conversions reorient the aberrations at the roots of human disorientation.”<sup>396</sup>

The “educational promotion of the four ‘conversions’” is fundamental to economic functioning, but it is also a massive undertaking. As Lonergan puts it, in a commonly quoted statement,

Now to change one’s standard of living in any notable fashion is to live in a different fashion. It presupposes a grasp of new ideas. If the ideas are to be above the level of currently successful advertising, serious education must be undertaken. Finally, coming to grasp what serious education really is and, nonetheless, coming to accept that challenge, constitutes the greatest challenge to the modern economy.<sup>397</sup>

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<sup>395</sup>Lawrence states, “At the core of any ethos, according to Lonergan writing in *Method in Theology* (1972) is a normative scale of values.” See Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, xxxii.

<sup>396</sup>See Patrick H. Byrne, “Economic Transformations: The Role of Conversions and Culture in the Transformation of Economics,” in *Religion and Culture*, 338.

<sup>397</sup>Lonergan, *Macroeconomic Dynamics*, 119.

This “vast and long-term educational effort”<sup>398</sup> would be directed toward a vision of truly democratic economic goods of order and would be “empirically rich, locally oriented, and normatively focussed.”<sup>399</sup> It would require the kind of reorientation of economics that would allow for a long-term strategic vision and that would ultimately be collaborative and would open the opportunity to “make conversion a topic.”<sup>400</sup>

Lonergan outlines his efforts at such a strategy in the method of functional specialization.

#### 5.4 Lonergan’s Theological Framework

Lonergan’s approach to solving social and economic problems emerges from the same kinds of commitments that are shared by the Canadian bishops, Baum, and Coady. These commitments are grounded in gospel principles and theological doctrines regarding justice, human dignity, and the common good. They are also grounded in the

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<sup>398</sup>Lawrence, “Editors’ Introduction,” in *Macroeconomic Dynamics*, lxxi.

<sup>399</sup>These qualities are identified by McShane as necessary for developing a primer in economics education. His statement identifies the further quality of a ‘non-truncated,’ which attempts to transcend the limits of bias. See, Philip McShane, “Editor’s Introduction,” *For A New Political Economy*, xxxi; see also, *Pastkeynes, Pastmodern Economics*, 116-117. Bruce Anderson further elaborates on these qualities in “Economics As If Local Community Mattered,” *Catholic Rural Life Magazine*.

<sup>400</sup>Lonergan, *Method in Theology*, 253.

concrete social and economic problems of the time. Further, they all recognize the need for interdisciplinary collaboration. However, for Lonergan, the larger theological context for these commitments involves a methodological approach that situates doctrinal commitments within a set of functional relationships of interdisciplinary collaboration. These functional relationships emerge out of Lonergan's understanding of the recurrent operations of human intentional consciousness, the occurrence of conversions, the dynamics of history, and grace. These operations and dynamics further situate Lonergan's framework for understanding ethics by way of the structure of the good and the general dynamics of his macroeconomic analysis.

For Lonergan, the ongoing offer of God's love is met with our orientation to and participation in ultimate meaning, whereby our commitment to sustaining life in all its forms is fostered. Our commitments to the theological doctrines and principles of justice, human dignity, and the common good are grounded in the "friendliness of the universe,"<sup>401</sup> but further, they require strategies of discovery and response for sustaining social, economic, and cultural networks with the help of adequate analyses that explain how these networks function for the good of all creation. Lonergan's strategy of discovery and response is the general methodology of functional specialization, and this approach situates the function of theological principles and doctrines in a context that requires a systematic response.

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<sup>401</sup>"Faith places human efforts in a friendly universe." Lonergan, *Method in Theology*, 117.

#### 5.4.1 Moral Impotence

Lonergan's theological response to social and economic problems arose from a recognition of the limits of secular responses to these problems. In the "Editors' Introduction" to *Macroeconomic Dynamics*, Frederick Lawrence claims, "As secularist strategies for solving the radical problem of individual and social autonomy without God (*MD:ECA* 94-95), liberalism and socialism fail to reach the root of the crises in modern exchange economies, namely, moral impotence."<sup>402</sup> For Lonergan, the quest for freedom in modern liberal, secular political, and economic movements has been based on the weak foundation of pursuing interests, whereby any claim to the common good is reduced to the balancing of competing interests in a kind of social contract version of society.<sup>403</sup> The alternative Marxist socialist view, in its political manifestations, has limited freedom for the sake of a bureaucratically managed state or class struggles, whereby the pursuit of interests is reinforced by perpetual cycles of group bias.<sup>404</sup> In

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<sup>402</sup>Lawrence, "Editors' Introduction," *Macroeconomic Dynamics*, lxx.

<sup>403</sup>Lawrence, "Editors' Introduction," in *Macroeconomic Dynamics*, lxx.

<sup>404</sup>Lonergan also refers to group bias as a bias of social development whereby the competing interests of groups involve ongoing power struggles but ultimately lack an openness to practical intelligence. See *Insight*, 247-250. Lonergan speaks rather critically of the Marxist vision in stating, "while Christians accord to God's grace the principal role in touching men's hearts and enlightening their minds, it would seem that the true believer in the gospel according to Marx must be immersed in proletarian living conditions, on the ground that only such material conditions can confer upon him the right thinking and righteous feeling proper to proletarian class consciousness." Lonergan, "Healing and Creating in History," in *Macroeconomic Dynamics*, 105.

contrast, for Lonergan, the issue of freedom goes far beyond the pursuit or achievement of individual or group interests. Further, this narrow pursuit is symptomatic of the root of social and economic crises—moral impotence. It emerges from the short-sighted, distorted vision that is based in shorter and longer cycles of decline.

Moral impotence is a limit to effective freedom, in that there are insights that could be grasped and courses of action that could be taken, but they are not.<sup>405</sup> Lonergan distinguishes between effective and essential freedom: “(t)he difference between essential and effective freedom is the difference between a dynamic structure and its operational range.”<sup>406</sup> That is, the dynamism of consciousness allows for the ongoing possibility of insights, reflection, and decision grounding action. However, effective freedom may be limited by a narrow grasp of a situation, of what to do about it, or by an unwillingness to do it. For Lonergan, this means that the development of persons, of intelligence and of the willingness to live out of intelligence and caring, has been limited.<sup>407</sup> This kind of limitation of the intellect and the will means that our horizon of concern and our ability even to imagine the complexity of social problems or their solutions is confined by the effects of bias and the longer cycle of decline.

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<sup>405</sup>Lonergan, *Insight*, 650.

<sup>406</sup>Lonergan, *Insight*, 643.

<sup>407</sup>Lonergan, *Insight*, 650. Lonergan states, “To assert moral impotence is to assert that man’s effective freedom is restricted, not in the superficial fashion that results from external circumstance or psychic abnormality, but in the profound fashion that follows from incomplete intellectual and volitional development.”

The problem of moral impotence is part of the larger problem of evil.

There is a theological dimension that must be added to our detached analysis of the compounding of man's progress with man's decline. Bad will is not merely the inconsistency of rational self-consciousness; it also is sin against God. The hopeless tangle of the social surd, of the impotence of common sense, of the endlessly multiplied philosophies, is not merely a *cul-de-sac* for human progress; it also is the reign of sin, a despotism of darkness, and men are its slaves.<sup>408</sup>

The desire and intention to do good is limited by the lack of understanding of the situation or of the lack of will to act. For, as Lonergan claims, a key element of the problem is that we have to live before we know how to live. The less intelligent the situation, the more our actions reflect the expectation of sin and a narrowed sense of the good. "The reign of sin, then, is the expectation of sin. On a primary level, (the reign of evil) is the priority of living to learning how to live, to acquiring the willingness to live rightly, to developing the adaptation that makes right living habitual. On a secondary level, it is man's awareness of his plight and his self-surrender to it."<sup>409</sup> This radical powerlessness to overcome the social surd,<sup>410</sup> to address the shorter cycle of decline that is the result of group biases and the larger cycle of decline that is the result of general bias, can be aided by the dynamism of progress, but it is not met by progress alone.<sup>411</sup>

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<sup>408</sup>Lonergan, *Insight*, 714.

<sup>409</sup>Lonergan, *Insight*, 715.

<sup>410</sup>Lonergan, *Insight*, 255. Lonergan talks about the social surd as a result of general bias "that (1) is immanent in the social facts, (2) is not intelligible, yet (3) cannot be abstracted from if one is to consider the facts as in fact they are."

<sup>411</sup>Lonergan, *Macroeconomic Dynamics*, 94.

#### 5.4.2 Grace and Learning

For Lonergan, grace and learning have key functions in the dynamic processes of healing and creating. Creativity is grounded in insights, which accumulate and become systematized:

The creative task is to find the answers. It is a matter of insight, not of one insight but of many, not of isolated insights but of insights that coalesce, that complement and correct one another, that influence policies and programs, that reveal their shortcomings in their concrete results, that give rise to further correcting insights, corrected policies, corrected programs, that gradually accumulate into the all-round, balanced, smoothly functioning system that from the start was needed but at the start was not yet known.<sup>412</sup>

This accumulation results in progress, whereby insights arise from situations and lead to policies that are transformative and to further insights that are critical correctives, and so are further transformative.<sup>413</sup> But, as progress mixes with decline, it needs the healing of grace to meet the problem of evil.

For Lonergan, it is God's initiative in the offer of God's love that opens the potential for a response to evil. God's love is known through human consciousness and is felt in the shift of our being in response to being loved in a mysterious and unconditional manner. But God allows for freedom, and God's grace must be met with the assent of the intellect and will of the person. This assent or lack of assent sets the

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<sup>412</sup>Lonergan, "Healing and Creating in History," in *Macroeconomic Dynamics*, 102. Lonergan adds that an example of such creativity is well illustrated in Jacobs' *The Economy of Cities*, particularly in her discussion of new uses for resources. (103)

<sup>413</sup>Lonergan, "Healing and Creating in History," in *Macroeconomic Dynamics*, 103.

further conditions for the reality of grace to be lived out externally. So, while the offer of God's grace is ongoing and ever-present, the response will be conditioned by and will further condition the external reality of cooperative grace.<sup>414</sup> This external reality is realized in the concrete, habitual practice of virtues, infused by faith, hope, and love.<sup>415</sup>

Lonergan makes the point firmly that the problem of evil is met by the initiative of God's grace, although this reality must be met further with the cooperation of human intellect and will in a collaborative effort. In the social realm, the problem is addressed by theology and requires the collaboration of human scientific disciplines for a systematic understanding and practical application.<sup>416</sup> However, it is clear that, for Lonergan, theology is key to the practical solution to the problem of evil:

But the solution to man's problem of evil has been seen to lie, not in a human initiative, but in an acceptance of the solution that God has

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<sup>414</sup>Patrick Byrne, "The Thomist Sources of Lonergan's World-View," in *The Thomist*, vol. 46 (1982): 108-145. In this article, Byrne outlines Lonergan's understanding of development and emergence through his grasping some key ideas in Aquinas' thought on grace and freedom and on the processions of the trinitarian analogy.

<sup>415</sup>Lonergan, *Insight*, 751. Lonergan states, "for the realization of the solution [to the problem of evil] and its development in each of us is principally the work of God, who illumines our intellects to understand what we had not understood and to grasp as unconditioned what we had reputed error, who breaks the bonds of our habitual unwillingness to be utterly genuine in intelligent inquiry and critical reflection by inspiring the hope that reinforces the detached, disinterested, unrestricted desire to know and by infusing the charity, the love, that bestows on intelligence the fulness of life."

<sup>416</sup>Lonergan, *Insight*, 768. It is arguable that the strategy of interdisciplinary collaboration for the practical application of the solution to the problem of evil is outlined in Lonergan's work on functional specialization in *Method in Theology*. See also McShane, *Economics for Everyone*, 152.

provided; and while empirical human science can lead on to the further context of the solution, the systematic treatment of the solution itself is theological. In a word, empirical human science can become practical only through theology, and the relentless modern drift to social engineering and totalitarian controls is the fruit of man's effort to make human science practical though he prescind from God and from the solution God provides for man's problem.<sup>417</sup>

The need of theology for "enlightened scientists" is indicated as part of the practical application of solutions to human problems that must be considered within the broader context of God's healing efforts:

For the drift to totalitarianism can be stopped only in the measure that human scientists work out intelligent and reasonable solutions to human problems and theologians succeed in convincing hardheaded practical men, on the one hand, that by God's grace intelligent and reasonable solutions can work and, on the other hand, that the desertion of intelligent and reasonable solutions for 'realist' policies is the operative principle in the breakdown and the disintegration of civilizations.<sup>418</sup>

The plea to stop the drift to totalitarianism by the work of theologians, theorists, and practical people highlights Lonergan's insistence that the project of human solutions be democratic. The fully transformative force of God's grace can only be realized with the full participation of persons.<sup>419</sup> It is not through manipulation or force that people are moved to participate in God's healing efforts. The offer of God's healing is fully felt in the cooperative effort that seeks persuasion through encouraging development and

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<sup>417</sup>Lonergan, *Insight*, 767.

<sup>418</sup>Lonergan, *Insight*, 768.

<sup>419</sup>Lawrence, "Editors' Introduction," in *Macroeconomic Dynamics*, lxxi.

learning.

### **5.5 Concluding Remarks**

Lonergan's theological methodology offers a general division of tasks directed toward the goal of progress and requiring interdisciplinary collaboration. Theological doctrines and principles, such as those affirmed by Canadian Catholic social ethics, are situated in the cycle of discovery and response where the goals of each functional specialty work interdependently toward the broader goal of progress, as each task relies and makes demands on the prior and latter tasks. Doctrines regarding social and economic problems rely on the discoveries of the past to provide data and interpretations and to grasp situations and positions. Doctrines identify commitments but further point toward the systematic task of understanding how these commitments are concretely realized and communicated broadly. It is the task of systematics to offer new tools of analysis, and this involves the general empirical insights into economic rhythms that are outlined in an alternative macroeconomic analysis. Further, this alternative analysis provides the ground for ethical response, as decisions to manage economic rhythms of production, payments, and finance responsibly set the conditions for the provision of an adequate and improving standard of living for all people.

The method of functional specialization recognizes the need for collaboration to solve complex problems. It also sets up collaborative problem-solving in a way that recurrently raises the issues of who we are in the world and of who we can be. The goals

of each specialty are understood as part of the larger goal of disciplines working to make sense of life and to live responsibly in the world and of the world. This is the goal of history that situates us concretely in our local communities and bio-regions, our families and traditions, our nations and continents. It also situates us cosmologically as part of an emerging, friendly universe, in which we encounter God in ongoing and varying ways. Our collaborative task is to make sense of these complex realities and to live them out responsibly and lovingly.

## **Conclusion**

The task of this thesis was to inquire into the relationship of ethics and economics, with a focus on the function of profit to illustrate this relationship. I have situated this inquiry in the conversation in Canadian Catholic social ethics on economic justice. I chose this conversation because it is my own context as a Canadian Catholic woman with a strong commitment to social justice. Further, I have chosen three representatives from this context to act as conversation partners: the Canadian Catholic bishops, Gregory Baum, and Moses Coady and the Antigonish Movement. These three represent important aspects of the conversation about economic ethics in Canadian Catholic circles. The bishops represent the “official” church voice. Baum represents the voice of critical theology and critical theory. Moses Coady and the Antigonish Movement represent the voice of concrete, community-based social economics. All of these perspectives have been relevant contributions to Canadian Catholic social ethics.

In entering the conversation in Canadian Catholic social ethics on economic justice, I have investigated the positions of the three representatives on the relationship of ethics and economics and the function of profit. I have found that they offer important insights into the inadequacy of current economic structures in meeting the needs of all people. They illustrate how these economic structures do not live up to the principles of human dignity, justice, the option for the poor, and the common good. These are principles that are held as fundamental in the Catholic social teaching tradition. For these three representatives, the failure of the contemporary economic

structures to live up to these principles and the failure to achieve the goal of the well-being of all people is a moral failure that requires the response of Christians. This response must be to challenge economic structural injustice and to seek an alternative.

Each of the three conversation partners, the bishops, Baum, and Coady, have made such a challenge in different ways. The bishops have written statements condemning the effects of current economic structures. They have held the economic system accountable to ethical and theological principles that promote the well-being of all people. They have encouraged the use of social analytical tools to identify the root of economic problems and to offer alternatives. Similarly, Gregory Baum grounds his theological and ethical stance in a strong emancipatory commitment that emerges from his critical contextual and critical social analysis. He acknowledges the importance of the ethical and theological principles that the bishops put forward, but he recognizes the need for an alternative analysis. Baum relies on the work of Karl Polanyi to outline an analysis that points to the social economy as a promising direction for change. Moses Coady and the Antigonish Movement rely on Catholic ethical and theological principles to challenge the concrete conditions of their context, responding with a community-based, social economic approach that is empowering for the poor.

However, the key limitation of the three conversation partners is that the ethical and theological principles that they promote point in a direction for economics to take, but they do not offer an alternative analysis that will allow economics to achieve these goals. In fact, in order to challenge the limits of economic structures, they rely on

economic analyses or approaches that either do not address problems at a macroeconomic level, and so their general application is not outlined, or these analyses are rooted in the inadequate economic theories themselves.

For such a macroeconomic analysis, I have looked to the work of Bernard Lonergan to enter into the conversation in Canadian Catholic social ethics on economics. I have suggested that what is required is a general macroeconomic analysis that addresses economic problems by identifying the activities, relationships, and rhythms of an economic order. Lonergan's macroeconomic analysis accounts for economic activities, their dynamic variations, and their complex relationships, internally and with other social orders. Lonergan's analysis does this by identifying two dynamic circuits of productive activity and exchange: basic and surplus circuits. The analysis outlines the elements of these circuits, indicating how the flows of productive activity and circulation of payments operate within the circuits, how these rates fluctuate, and how the circuits relate to each other. The analysis identifies phases of the circuits and accounts for the expansion of productive activities and the acceleration of payments. In this way, Lonergan's analysis outlines how the expansion of surplus and then basic circuits allows for a rise in the standard of living for everyone.

Lonergan's macroeconomic analysis identifies the function of profit as pure surplus income in its ultimate role as a social dividend. Profit, in this sense, is the amount that increases in a major surplus expansion and whose function is to be invested in that expansion until it has peaked. This profit then must reduce, as there is a shift to a

major basic expansion, with surplus productivity remaining at a constant rate. The major basic expansion then allows for productive activity that will bring about a rise in the standard of living. These shifts do not occur automatically, but they require the intelligent and responsible management of everyone by way of decisions to save or spend in accordance with the phase of the circuits. The misunderstanding of this function of profit has led to a number of mistaken directions in economies that have had disastrous effects.

Lonergan situates his analysis in a broad ethical framework that identifies what social structures are and how they function to achieve goods and values recurrently. Lonergan's structure of the good identifies increasingly broad horizons of concern moving from the broad categories of particular goods, goods of order, and value. For Lonergan, economies are goods of order that meet particular needs and desires on an ongoing basis. Goods of order are structures of cooperation that involve collaboration and intelligence. Their dynamism takes us beyond the narrow limits of the pursuit of interest to our collaborative project of living together. In fact, we would not achieve particular goods, we would not have our needs and desires met recurrently, without these collaborative structures. The broader horizon of values evaluates the functioning of these collaborative structures, challenging them when they do not function to achieve goods for everyone. The level of values takes us beyond our local networks to our historical project of living, that is grounded not only in human intelligence and collaboration, but in the loving presence of God in a universe charged with meaning.

Lonergan's methodology of functional specialization provides a further response to addressing economic problems by way of a general strategy for interdisciplinary collaboration. Functional specialization divides the task of discovery and response into an eight-fold method of organizing methods. The eight specialties—research, interpretation, history, dialectics, foundations, doctrines, systematics, and communications—each build on the work of the others, handing on their contributions to the following specialty in an ongoing circuit. This provides an operational or functional basis for all disciplines to contribute to the improvement and reorientation of one another's work. In the reorientation of economics, functional specialization provides the broader methodological structure that allows for the ongoing discovery of economic data, theories, histories, and conflicts, while responding with positions, principles, analytical tools, and concrete expressions. Functional specialization brings the broadest horizons of concern into interdisciplinary collaborative efforts, raising self-transcendence and conversion as relevant topics in the cycle of discovery and response. In this manner, economics, and any discipline, is accountable to the question of self-transcendence. This is a question that makes us responsible not only for pursuing our own interest, but for creating a better world collaboratively and intelligently, responsibly and lovingly.

As for the relevance of Lonergan's macroeconomic analysis, ethical framework, and methodology to conversations in Canadian Catholic social ethics, I believe that Lonergan's work is a necessary complement. The important grounding in Catholic

social principles provides a direction for Canadian Catholic social ethics to challenge the current economic structures. The three representatives from this context voice these principles well in their concern for economic justice. Further, the direction of social economics, which each of the three representatives point toward as a hopeful development, is significant to the needed contextual and democratic approach that Lonergan promotes. So, I can anticipate the need for further work on the relationship of Lonergan's economics, ethics, and methodology with social economics movements within and beyond the context of Canadian Catholic social ethics. I also anticipate the need for a development of how functional specialization can facilitate the implementation of the local, democratic, but generally applicable new direction for ethics and economics. This development would provide a basis for initiating the massive educational shift that is required to meet the challenge of economic reorientation.

As I conclude this project it occurs to me that the shift to which Lonergan's work points is generations away, if it occurs at all. It is a testament to the fact that our lives are truly collaborative projects and that we are all connected through the generations in our ideas and our actions. We are also connected through God's loving presence that places us in a friendly universe and charges our lives with meaning. So, we take our steps forward with this in mind, trusting that we are not alone in this project of living.

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