Forthcoming, in Catholic Perspectives on Economics, Rowman Littlefield.

1. What is economics?

Economics is a social science that attempts to explain how people behave when their unlimited desires collide with their limited abilities. Whether those people are altruistic or selfish, rich or poor, whether they value money or art and literature, or exist in a socialist system or capitalist system influences the economic outcomes, but doesn't alter the economics. Regardless of their motivations, resources, values, and rules of interaction, they are all human beings who must choose to allocate their limited time, talent, and treasure to competing goals. How people go about making these choices is the focus of economics.

While economists tend to focus on positive (what is) rather than normative (what should be) arguments, when economists do talk about subjects that touch on moral questions, like the minimum wage and wealth inequality, non-economists often misunderstand the arguments economists make. Non-economists often perceive that economists regard what is moral as of secondary importance to what is profitable. But this is largely due to non-economists' misunderstandings about the science of economics and the reality of economies. For example, a common complaint about economic science is that it assumes that people are motivated to acquire money. The complaint, quite reasonably, says that there are many things of value besides money - art, music, physical and spiritual well-being, recreation, family - and that any science that reduces people to the pursuit of just money is sorely lacking in its ability to explain human behavior. This argument is quite reasonable, yet wholly inapplicable. Economics does not assume that people pursue only money. Quite the reverse. It assumes that people pursue things they value, whatever those things may be. And that includes all the things that contribute to

physical, spiritual, mental, and community well-being. If we were to remove all money from the economy, as those who advocate for "gift economies" and "post-scarcity economies" suggest, we would alter the economy, but not economics. Greed arises from limitations of the human character, and want from limitations of the physical world. Eliminating money from an economy then eliminates neither greed nor want.

Non-economists also tend to misunderstand economics because they are lulled into a false sense of familiarity. Every day, people work in exchange for money, they put money into and take money out of their banks, and they pay for things they buy. This constant engagement in the marketplace breeds a false sense of familiarity with the economy. What people are experiencing is not the economy but specific economic behaviors. The economy is much broader than a single person's behavior, and can only be seen when one steps back to observe many people acting, reacting, and interacting.

Imagine observing two interlocking gears. A person who watched these gears turn could divine much about the behavior of gears. But the person would know nothing about the workings of a mechanical clock. To understand the clock, the person would have to step back and observe the cascade of interactions of all the different types of gears and levers with each other. That's the problem facing the casual observer of economic behavior. Observing an instance of economic behavior doesn't reveal the economy. It only reveals the specific behavior of a specific economic agent at a specific time and under specific circumstances.

2. Misunderstandings about words economists use

Economists have an unfortunate tendency to take common words and attach to them specific meanings that the words do not have in common use. The result is that economists and non-economists speak the same language while rarely communicating. For example, “capital” to the non-economist means money, and so many non-economists believe that “capitalism” means “the pursuit of money.” To the economist, capital is something people use to transform resources into products. Factories and machinery are physical capital. Specialized knowledge is intellectual capital. Talent, skill, and strength are human capital. When economists say, “capitalism,” they mean an economic system in which the tools used to transform resources into goods and services are owned by people individually rather than by the government. And so you can see the puzzlement economists experience when non-economists discuss the morality of capitalism. What the non-economist means is, “is it moral to pursue money?” What the economist hears is, “is it moral for individuals to own tools that transform resources into goods and services?”

When economists talk about profit and costs, they include all the non-dollar things that non-economists claim that economists ignore. For example, when an economist says, “It costs a person $10 to travel from his home to his work,” the economist does not mean that the person has to pay $10 to make the trip. What the economist means is that the person has to give up lots of things to make the trip. The person has to use some gas, and incur some wear and tear on his car. The person must be away from his family, incur the emotional aggravation of fighting traffic, and take the chance of being in an accident that might impose financial, physical, and emotional tolls on the person and on the people he loves. When the economist says, “It costs a person $10 to travel from his home to his work,” what the economist means is, “The total burden to the person of all of the financial, physical, emotional, spiritual, and probabilistic implications

of traveling from home to work has the same effect on the person's behavior as does the burden of losing $10."

The apparent preoccupation economists have with money arises not because economists believe that money is all that matters, but because economists use dollars as a unit of measure - in the same way that a builder uses feet and inches as units of measure. For example, how can we know that the financial, physical, emotional, spiritual, and probabilistic burdens of driving to work have the same effect on a person as does the burden of losing $10? Easy, we observe the choices the person makes. Suppose the person could have taken a job closer to home that was, in all respects, equivalent to the job to which he currently commutes, but with two exceptions: (1) the job closer to home would have required no commute, and (2) the job closer to home would have paid $26,000 less annually. If the two jobs were identical in every other respect, yet the person chose to take the job further from home, then we can conclude that the financial, physical, emotional, spiritual, and probabilistic burdens of commuting weigh at least as heavily on the person as would the burden of having $26,000 less per year. For a 260-day work year and 20% tax, $26,000 annually comes out to $10 per one-way trip.

By observing both what the person chooses and the alternatives that the person does not choose, we can measure the burden of commuting in units of dollars. When economists say that it costs the worker $10 to commute, they don't mean that the worker is only thinking of money. They are using money as a yardstick for measuring the burden of the worker's commute. Why something is burdensome or valuable may be due to aesthetic or moral or health or convenience or financial reasons. Economics doesn't address *why* things are burdensome or valuable, only *that* they are burdensome or valuable.

3. Misunderstandings about economics

A common misunderstanding about economics, and one that lies at the root of many questions about the morality of economic behavior, is that transactions are zero-sum phenomena. That is, in every transaction, there is a winner and a loser. People see this most clearly in markets in which there is little competition. For example, suppose you have only two options for Internet access. A local company offers slower service for $40 per month, and a major national company offers faster service for $80 per month. You don't want the slower service, but you aren't happy about paying $80 for the faster service. Nonetheless, you choose the faster service. It is natural to look at this transaction as zero-sum: the company gains $80 and you lose $80. But that view misses the fact that you'd rather pay $80 for the fast service than $40 for the slow service, or even $0 for no service at all. How do we know? Because, faced with these three options, you chose the one that cost $80. Your behavior demonstrated that you believe you are better off after paying $80 for the fast service than you would have been had you done anything else. The transaction was actually positive-sum. The company gained $80 and you gained a fast Internet service. We know that the company is better off because, if selling you the service at $80 made the company worse off, the company wouldn't sell you the service for $80. But we also know that you are better off because, if buying the service made you worse off you wouldn't have bought the service.

A common response to this is, "But I need Internet service. I don't have the option not to buy it." You certainly do have the option not to buy it. When you say, "I need Internet service," what you mean is that you receive tremendous benefit from the service. In other words, far from being a zero-sum transaction, you have actually gained a tremendous amount of value from the transaction. The zero-sum fallacy arises when one focuses on the flow of dollars. The flow of

dollars is only half of the transaction. The other half - the flow of goods - is actually more important.

A second common misunderstanding, derived from the zero-sum fallacy, is that those who earn profit have taken something from the rest of us. This misunderstanding is at the root of complaints like, “the top 20% of households take home 50% of the income,” or “the top 3% of taxpayers own more than 50% of the wealth.” The phrases imply a moral question: “Is it right that a minority of people have a majority of the income?” The verbs, “take home” and “own” reveal the misunderstanding that income and wealth are things one harvests – that some people, through cunning, strength, or luck, pushed others out of the way and collected more than their fair share of the economic pie. But income and wealth are not harvested. They are created. Using the correct verb, these phrases should read, “the top 20% of households create 50% of the income,” and “the top 3% of taxpayers produced more than 50% of the wealth.” When we use the correct verb, the phrases imply a very different moral question: “Is it right that a majority of the people produce only a minority of the income?”

There may be inequalities of opportunity that make it harder for some to create wealth. Those born into poor or minority households may not enjoy as many opportunities to create wealth. But this underlines the fact that our focus should be on helping people to create wealth rather than penalizing people for having done so.

To paraphrase, Terry Crews, the actor and former football player, the economy is not a pie over which we fight for slices. The economy is a kitchen in which we can create as many pies as we have the time, talent, and will to create. The misconception of economy-as-pie comes from the misconception of money-as-wealth. Money isn’t wealth. It is a tool that facilitates the transfer of ownership of goods and services. Wealth is the subjective value people place on goods and

services they have. This is easiest to see when we remove the money from transactions. If I have a sweater, but I'd rather have a pair of shoes, and you have a pair of shoes but would rather have a sweater, when we exchange sweater for shoes we are both better off. Your wealth increases and so does mine. Using dollars makes exchanging easier, but it doesn't alter the underlying reality. What we're really doing is exchanging stuff we value less for stuff we value more.

When the Pope calls for people to put aside consumerism and materialism, he is acknowledging this economic truth – what matters isn't the acquisition of dollars but the subjective value you place on what is around you. The Pope's call isn't to abandon economics but to refocus our subjective values.

Imagine a person who performs some service for people in his community. Perhaps this person paints houses, or grows food, or fixes cars. This person provides value to others. How much value? Suppose people in the community are willing to pay him $4,000 per month to perform his services. That means that the people in the community value his services by at least as much as they value each of the other things they could do with their share of the $4,000 instead. As short-hand, we say that the community places a $4,000 value on his services. But in return the person wants some of the community's resources - food, clothing, shelter, energy. Suppose others in the community who own these resources are willing to part with them in exchange for $3,000. This means that those others place a $3,000 value on the resources the person wants.

The person provides services that the community values enough that people are willing to pay $4,000 for those services. And the person requires in return resources that the community only values at $3,000. The person is creating more value for the community than he is

consuming of the community's resources. If all the people in this community were like this worker, the community would be eminently sustainable.

But notice something. The person ends up with a surplus of $1,000 each month. Over the course of just one decade, the person will have accumulated savings well into six figures. Is it right to look at this person's fat savings account and to ask the person to "give back" to the community? It is not. In fact, it is the community that owes the person, not the other way around because, for a decade, the person has been asking for less of the community's resources than he has been providing in services in return. In a free market – one in which the only way to obtain money is through voluntary exchange - a fat savings account is the accumulated value of goods and services that the community owes the worker.

One can argue that someone who receives an inheritance is an exception because the inheritance does not represent value that the heir produced. But it does represent value that the person who left the inheritance produced, and that person chose to give that value to the heir. The argument that the heir doesn't deserve the money because he didn't earn it applies just as readily to the rest of society. The rest of society didn't earn it either.

4. Misunderstandings about rationality and preferences

A foundational principle of economic theory is that humans behave rationally. That is, that they seek out and weigh relevant information and make choices based on that information that they believe will bring them happiness. But there are numerous examples of what appears to be irrational human behavior. People smoke, and then suffer ill health. People put off saving and then retire in penury. The fact that all people sometimes behave irrationally raises the question of whether economics is built on a false premise or whether its focus on people making choices

based on their preferences simply rationalizes selfish and destructive behavior. The latter question is not an indictment of economics but a question of what specific preferences drive people's behavior.

Economic theory is agnostic to what preferences people hold. It requires only *that* they hold preferences and that they are able to weigh competing preferences against each other. The same economic principles explain equally well the behavior of selfish people who care only about surrounding themselves with luxury as the behavior of altruistic people who care about protecting the environment and caring for the poor. The difference isn't in the economics but in the people's motivations.

Clearly, people do make irrational decisions. However, most people tend to learn from their mistakes and from the mistakes of people around them. Those who do not usually find their ability to make further decisions curtailed, whether because of reduced economic options, incarceration, or death. Although people can and do behave irrationally, on average, individuals tend to behave rationally. And where they do consistently behave irrationally, it is often due to what economists call *rational irrationality*. A person is rationally irrational when the cost of correcting irrationality exceeds the benefit. For example, it isn't rational to just grab the closest brand of gum at the grocery store checkout line. What's rational is to research which brand of gum is the best buy for the price and then go seek out that particular brand. The problem, of course, is that the time, energy, and hassle involved with determining which brand is best and seeking out that brand more than outweighs the added benefit of buying the best brand. Consequently, it is actually more rational simply to grab the nearest brand. The apparent irrationality is actually rational.

Because different people can have widely differing preferences, it can be difficult to distinguish between irrational behavior and rational behavior driven by preferences that an observer may not share. For example, consider a person who chooses to smoke knowing that smoking increases the risk of lung cancer. The person derives pleasure today from smoking and incurs a (probabilistic) health cost in the distant future. A common claim is that the willingness to trade off pleasure today for a reduced lifespan is, de facto, evidence of irrationality. But this is due to the claimant's inability to perceive that someone might find smoking pleasurable. If we replace smoking with something many would agree is pleasurable - for example, eating solid food - the rationality of the tradeoff becomes apparent.

Over 4,000 Americans die each year from choking on solid food. A low-cost solution to this problem is to puree everything we eat. But doing so would make our meals far less enjoyable. When we eat solid food, we make the rational decision to tradeoff increased pleasure for an increased probability of dying. The choice to smoke is no less rational than the choice to eat solid food. That it appears irrational to some is due to skeptics' inability to appreciate the pleasure the smoker obtains from smoking. And the fact that cigarettes are addictive isn't a meaningful rejoinder. Addiction explains *why* the person finds cigarettes desirable, not *that* the person finds cigarettes desirable.

Herein lies an interesting distinction between the economic and moral views of behavior. Catholicism holds that some behaviors are inherently immoral in the end (killing), in the means to the end (prostitution), or in degree (smoking, eating, and drinking). In this Catholicism does not disagree with economics because economic theory is agnostic to what people prefer. Economics speaks to the choices people make in pursuit of their preferences. Catholicism speaks to what people's preferences should be. The Christian economist is careful to keep these two

separate. In the same way that the purpose to which a person puts a tool has no bearing on the physics that govern the tool's operation, so too the Christian economist is careful to distinguish between economic behavior and the purpose to which that economic behavior is put.

5. Misunderstandings about economic systems

An economic system is the set of formal and informal rules and institutions that surround people's economic decision-making. All economic systems exist along a continuum where, at one extreme, all economic decisions are made individually and, at the other, all economic decisions are made collectively. Where nation-sized groups of people are concerned, economic systems don't exist at the extremes. Some will tend more toward individual decision-making with only limited collective decision-making, and others will tend more toward collective decision-making with only limited individual decision-making. To the extent that people engage in collective decision-making, government typically serves as the tool for collective action.

When we see poverty, inequality, or exploitation, many people's first inclination is to turn to collective action - the government - for a solution. But government solutions present their own problems. These problems are called government failures and they fall into three categories: the *knowledge problem*, *unintended consequences*, and *regulatory capture*. Public Choice, a field of economics pioneered by Nobel laureate James Buchanan, sheds light on these problems by taking our knowledge of how humans in the private sector respond to incentives and applying it to humans in the public sector.

- The knowledge problem arises because politicians and bureaucrats lack the information necessary to make the best decisions. Imagine that you had to order lunch for a dozen strangers. Without knowing their particular preferences, allergies, and

whether and what they ate for breakfast, the best you can hope for is that you don't order lunches that people hate. You don't have the knowledge necessary to make the best choices, and because you won't be eating the lunches, you have less incentive to obtain the necessary knowledge than would the individuals themselves. Now imagine that you are not choosing lunch, but health insurance plans, wage rates and training rules, car safety features, and thousands of other things. And, imagine that you are choosing these things not for a dozen but 300 million strangers. And now imagine that these people's preferences and circumstances are constantly changing. This is the knowledge problem, and it makes it impossible for government to make better choices for individuals than those individuals can make for themselves.

- Unintended consequences occur because, when we observe other people's behavior, we tend not to be aware of the alternatives those people face or not appreciate that their preferences may differ from ours. Consequently, when government attempts to regulate people's behavior, people react in ways that bring about unintended consequences. For example, when we see children working in factories in lesser developed countries, our visceral reaction is that this is wrong. However, that visceral reaction is driven, at least in part, by a false perception of alternatives. In a developed country, the alternative to a child working in a factory is the child going to school. So when we see the child in the factory, we also see the child missing out on the opportunity to better himself through education. But in many lesser developed countries, school is not the alternative. The alternative to the child working in the factory is the child starving. In these instances, when we focus myopically on

eradicating child labor, we sometimes achieve the unintended consequence of promoting starvation.

Congress intended the Americans with Disabilities Act (ADA) to protect disabled workers from being fired because of their disabilities. But subsequent research showed that the ADA actually caused an increase in unemployment among disabled workers. Why? Concerned that they would not be able to fire or otherwise legitimately discipline disabled workers, employers opted to avoid hiring disabled workers altogether.

To protect species' habitats, Congress and regulatory agencies prohibit land owners from developing land that contains endangered species. But the regulations have contributed to harming endangered species. Why? If land owners suspect that their lands either currently or might in the future contain endangered species, they have an incentive to pre-emptively clear-cut the land before the species' presence is documented. This has the effect of destroying rather than preserving habitats.

- Regulatory capture occurs when businesses co-opt the regulatory process for their benefit. Suppose we observe a large corporation using unfair business practices to stifle competition. We might ask government to regulate the corporation so as to prevent these unfair practices. However, it is often easier for the large corporation to stifle competition by co-opting the regulators than it is by employing unfair market practices. For example, pharmaceutical companies, which are regulated by the FDA, lobbied the FDA to ban electronic cigarettes. The reason? Electronic cigarettes are a cheaper and, in many cases, more effective way to help people quit smoking than are

> nicotine gum and patches – products that the pharmaceutical companies sell. Less regulated industries sometimes actually request that the government impose more regulations on them as a means of hampering competition. In extreme cases, as Stigler's work shows, regulators can seek to assist businesses in exchange for businesses rewarding the regulators with lucrative consulting positions after the regulators retire from government.

One might argue that democracy is the solution to government failures because voters have the power to remove politicians. But in the same way that government is a flawed tool for checking excesses in markets, voting is a flawed tool for checking excesses in government. Consider this thought experiment. One-hundred people will vote on a proposed law. The law would take $10 from each of 90 people, burn half the money, and give what's left to the remaining ten people. At the end, the 90 would have paid a total of $900, while the 10 would have received a total of $450. Such a proposal would be defeated by a vote of 90 to 10 because, not only does it benefit only 10 people at the expense of 90, but the total cost to the 90 people exceeds the total benefit to the 10. Clearly, this law would make society worse off.

But in practice, voting is costly. Voters must expend effort to be aware that the proposal has been made. They must expend more effort to read and understand the proposal. They must expend still more effort to determine whether the proposal is good for them. Finally, they must expend effort to go out and cast their votes. In our thought experiment, let's represent all of these costs with a $15 fee. Each of our one-hundred people can vote for or against the proposed law. But, in order to vote, each must pay $15. What is the outcome of the vote? If the 90 vote against the law, the law will be defeated and each of the 90 will be $15 worse off. But if the 90 don't

vote, the law will be approved and each of the 90 will be $10 worse off. Consequently, each of the 90 is better off not voting at all. Meanwhile, each of the 10 people will $30 be better off if they vote and the law passes. Consequently, each of the 10 has an incentive to vote. The result is that the vote passes 10 to 0, and society is worse off.

Economists call this the phenomenon of *concentrated benefits and dispersed costs*. When the benefits from some government action are concentrated in the hands of a small number of people, while the costs of that action are dispersed over a large number of people, the minority has a strong incentive to lobby and vote for the action while the majority has a lesser incentive to lobby and vote against it.

The thought experiment coincides with what we observe. In presidential elections, typically 40 percent of eligible voters don't vote. In midterm elections, typically 60 percent of eligible voters don't vote. And many of those who do vote aren't well informed about the relevant issues or the candidates' positions on those issues. Why? Because, as in the thought experiment, voting is costly.

The common misunderstanding is that a democratic process ensures that representatives represent the interests of the people, and that those representatives fix problems through legislation. In practice, incentives almost guarantee that representatives represent special interest groups at the expense of the majority, and that the effects of government actions often differ from the intentions of those actions. All these cases force us to be cautious in what we can expect from collective action. Naiveté will often leave the vulnerable prey to the more sophisticated who understand that proposed government solutions can appear benevolent while actually benefiting the powerful at the expense of the weak.

6. Misunderstandings about moral action

Calls for government interference in markets often begin with calls for moral action. We see the disparity between rich and poor, we see exploitation, we see hunger and disease, and we are understandably impelled to action. But moral action requires knowledge and free will. When I give to the poor, I behave morally. When I take money from you and remit it to the poor, I do not behave morally. First, *I* have not acted morally because the money I remit isn't mine. Ownership is a prerequisite for giving since one cannot give what one doesn't first own. Second, *you* have not acted morally because by forcibly taking from you, I have negated your free will.

In the name of helping the poor, advocates of government intervention invoke a form of "social contract" wherein, by virtue of being members of society, we all agree to abide by "society's" decisions. And if we decide that we will help the poor by redistributing income, then we have all tacitly agreed to this decision. The problem is that, if we did agree, then there would be no need for government-enforced redistribution because we would redistribute voluntarily. The reason people invoke government-enforced redistribution is precisely because we don't agree. The phrase, "we agree" hides the fact that "we" actually comprises a small subset of the population. How small? If voter turnout is around 60% and the winner garners 51% of the vote, then the, "we" in "we agree" is 60% of 51%, or about 30% of the people - so few that the "not we" actually constitutes a super-majority.

One might argue that the 40% of people who sit out the election, in effect, freely choose to allow others to make decisions for them. One might further argue that the 49% who voted in the minority, by virtue of voting, agreed to abide by the outcome. Yet these arguments have no bearing on what does and does not constitute moral action. The morality of an action comes from the action being in accordance with moral truth, not from the action being popular. And one of

the fundamental principles for moral action is that the action result from free will – something that is antithetical to collective decision-making.

And where the tendency to collective decision-making arises, there also arises an important question, wherein lies the morality of caring for the poor? The four Gospels mention the poor twenty-one times. Half of those occasions instruct the reader to give to the poor. But on no occasion is the reader instructed to take in the name of the poor. And this raises an important question about the intersection of economic action and morality. Does the morality of feeding the poor lie in the end result of the poor no longer being hungry, or does it lie in the means by which the poor are fed? The morality must not lie in the end result because that would make the poor a problem to be solved and the rich a resource to be tapped. That view is dehumanizing to both the rich and the poor alike. The morality of feeding the poor must lie in the means. When the rich and the poor come together freely, they form community bonds. Only when we respect individual freedom do the people become the ends rather than tools for achieving the ends.

7. Realities of government and markets

Government, unlike voluntary collective organizations like churches, social clubs, and neighborhood groups, employs coercion. If you don't agree with decisions that your social club makes, you can leave the club and no longer be bound by its decisions. Unless one equates "government" with "country" – an equation that is both not obvious and quite problematic – it is not possible to leave one's government. Hence, government's use of coercion makes it a special type of collective decision-making tool.

As with all tools, good outcomes result when the tool is used appropriately and bad outcomes result when it is used inappropriately. This raises the question, what is the appropriate

role of government in society? Along the continuum, from no government interference to ubiquitous government interference, there is one interesting line of demarcation. That is the point at which there is enough government interference to prevent people from imposing harm on each other, but no more. This is the point of maximum economic freedom. Economic freedom requires that people be free to act as they choose but that they also be free of being acted upon. Economic freedom is not the opposite of government. It is the opposite of the wrong amount of government.

There is no direct way to measure economic freedom. However, several proxy measures exist. The most comprehensive are the Fraser Institute's *Economic Freedom of North America* and *Economic Freedom of the World*. Fraser looks at forty-two metrics spread across five categories – government spending and taxation, property rights protections, soundness of money, freedom of trade, and market regulations – and combines them into an index reflecting the degree of economic freedom in countries, states, and cities. Comparing Fraser's economic freedom index to quality of life measures provided by governments and the United Nations provides some insight into the appropriate role of government in society.

For each year, going back at least to 1985, Fraser measures economic freedom for each country in the world, for each state and province in the US, Mexico, and Canada, and for large metropolitan areas in the United States. For each year, we can divide the 50 US states into two groups: the 25 with more economic freedom and the 25 with less economic freedom. Over the course of the years, roughly one-quarter of the states (Figure 1, left) always appear in the less free group, one-quarter (Figure 1, right) always appear in the more free group, and roughly half of the states (Figure 1, center) switch between the two groups. The average state in the center panel switches sides three times over the course of the years.

Figure 1.

While a majority of the states moves back and forth between the more-free and less-free groups, the difference in the outcomes between the more-free and less-free groups stays remarkably constant. In each year, the 25 states in the more-free group exhibit higher median household incomes (on average, 7.6% higher) than do the 25 states in the less-free group. In each year, the more-free states exhibit lower unemployment rates (on average, one-half of a percentage point lower) than do the less-free states. In each year, the more-free states exhibit lower poverty rates (on average, 1.7 percentage points lower) than do the less-free states. The Census Bureau measures income inequality only periodically. In three out of the four years for which inequality data is available, the more-free states exhibited less income inequality than did the less-free states. In the fourth year, the difference in inequalities between the more-free and less-free states was statistically zero. What is true for the states is also true for US cities. More-free cities exhibit higher median household incomes, lower unemployment rates, and lower poverty rates than do less-free cities.

And what is true for U.S. states and cities is also true across countries. Countries that are more economically free suffer less poverty, less income inequality, less child labor, and less gender inequality than do countries that are less economically free.

8. Economy and Community

All of this suggests two things. First, that moral action requires individual freedom. One cannot act morally if one does not first have the freedom to act. One cannot give if one does not first own. However, this raises a troubling question: what if people who are free to act choose not to act morally? What if those who own do not freely give? Yet the evidence across time, across countries, across states, and across cities tells a consistent story. Societies that rely more heavily on individual decision-making attain more moral outcomes than do those that rely more heavily on coercive collective decision-making.

And here we see a model for a Christian community – one in which people are free to act as they please, provided that they do not impose harm on each other, one in which the coercive force of government is used only to prevent people from imposing harm on each other, and one in which the Church offers guidance as to how people can exercise their freedom well.

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