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Everyday Economics and Why It Matters

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The recent financial and economic collapse has served as evidence for some that the discipline of economics is a failure and that free-market economics in particular should be disavowed. Thus, there is no need for anyone to worry about failing to understand economics. This article will argue that such a view, while understandable, is shortsighted and ignores the very real benefits of both economics and free markets. In this essay, I will cover and discuss the fundamental terms of economics and I will also consider the importance of ethics and morals in the appropriate functioning of our economic system. My goal is to present both the virtues and vices of economic theory and its applications. Finally, I will present a case demonstrating why it is important for clergy and laypeople alike to understand economics and our economic system.

Economists use words that sound like everyday language but mean something different. Micro-and macroeconomics are the two main divisions of the discipline. Macroeconomics focuses on the economy as a whole, with emphasis on inflation, unemployment, and growth, while microeconomics considers industries or units—for example, people or companies. Press coverage is almost exclusively focused on macroeconomics, since this includes reports on whether it is the economy or unemployment that is growing. Yet the field of microeconomics, while unreported in the media, is often extremely applicable to everyday life.

A meaningful conversation about faith and economics requires the participants to know the fundamentals of each discipline. Here, Professor Boeh offers an introduction to basic principles of market economics.

Managing scarcity is the underlying tenet that brings micro- and macroeconomics together. There isn't enough time or money to satisfy all the wants of our world. Bill Gates and Warren Buffett have more money than most people (and some nations) in the world. Yet, they don't have unlimited time, either in a day or in their lifetimes. Furthermore, while their philanthropy is substantial, targeted, and often effective, their foundations alone will not be able to solve even a small portion of the world's problems. Whatever one does means that something else is not done, either in terms of time or money. Economists' term for the foregone alternative is *opportunity cost*. It is an important, if often overlooked, concept, because it reminds us that every activity or decision has some sort of cost. Time spent at work means less time for family or friends.

MARTIN LUTHER AND ECONOMICS

Martin Luther lived at a time when economic activities resembled those of the earlier Middle Ages. One of Luther's primary economic concerns was usury. *Usury* in Luther's time meant either the paying or receiving of interest of any kind, not just "excessive" interest. Luther believed paying interest was against both God's law and natural law. Traditionally, the Roman Catholic Church had prohibited usury. However, the Fifth Lateran Council (1512–1517) produced a bull signed by Pope Leo X that not only allowed the charging of interest, but now excommunicated those who disagreed with this striking change in church policies.[1] It is not coincidental that Luther's theses were posted immediately after this council, since Luther was protesting, in part, the corruption of church authorities, including the selling of indulgences and borrowing money to finance lavish projects.

Luther's views on usury changed over his life. Initially, he believed in a complete prohibition of interest, but later he wrote that interest could be charged if three stipulations were followed: loans must be backed by collateral; risk was to be shared by both borrower and lender; and governmental regulations should prevent abuse of the poor.[2] Henry William Spiegel has argued that Luther's economic ideas had both positive and negative impacts upon Germany's economic development.[3] The decline of the stifling impact of corruptive practices of the Roman Catholic Church on the population was an improvement. On the other hand, Luther's belief in substantive governmental control over economic activities contributed to Germany's lagging integration into the culture of the West, including, later, the industrial revolution.[4] Luther was a conservative who believed in a hierarchical society. His opposition to the importation of luxuries would have had the effect of reduc-

[1] David W. Jones, *Reforming the Morality of Usury* (Lanham, MD: University of America Press, 2004) 34–35.

[2] Jeanne Boeh, review of Jones, *Reforming the Morality of Usury*, in *Till and Keep: A Journal on Vocation* (Spring 2006) 18–20; also http://www.augsburg.edu/lilly/documents/tk06.pdf (accessed 3 February 2010).

[3] Henry William Spiegel, *The Growth of Economic Thought*, 3rd ed. (Durham, NC: Duke University Press, 1991) 78–79.

[4] Rondo Cameron, *A Concise Economic History of the World: From Paleolithic Times to the Present*, 2nd ed. (New York: Oxford University Press, 1993) 242–248.

ing trade and, to an economist, negatively impacting the welfare of the population. He believed there was a duty for people to follow governmental rules and to work and live as simply as possible.[5]

I believe we should view Luther's writings on economics with an understanding of the economic milieu then extant, especially with entrenched social classes of nobility, peasants, and clergy.[6] Luther's economic writings cannot be used literally today but must be placed in the context of our economic setting with an understanding of their historical context.

Adam Smith and the Development of Modern Economics

Adam Smith (1723–1790) lived in England when per capita or per person income was beginning to increase for the first time. Agrarian productivity had allowed a smaller percentage of the population to produce more than enough food for the nation, which enabled workers to flow to other industries.[7] He was an intellectual product of the Newtonian spirit of the day. Private interests could be harnessed and made to work for a harmonious world.[8] Smith's economic world was one of mercantilism, in which primacy was given to enhancing the state's power and economy.[9] His best-known book, *The Wealth of Nations*, originally published in 1776, contains this famous quote:

> But man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour….It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.[10]

Adam Smith described how the invisible hand of the market allowed self-interested citizens to coordinate the production of goods and services for others. Nonetheless, Adam Smith certainly did not believe in unfettered self-interest. *The Theory of Moral Sentiments* was his first book, published in 1759, and he was working on a revised version of this book when he died in 1790. The two books are meant to form a systematic whole. *The Wealth of Nations* focused on raising national income, wages, rents, and markets, using self-interest in the economic realm; meanwhile, *The Theory of Moral Sentiments* considered what personal traits would be necessary for markets and societies to function and thrive in moral harmony. The counterpart to economic self-interest was empathy or sympathy for others.

[5]Spiegel, *Growth of Economic Thought*, 78–79.

[6]David S. Lands, *The Wealth and Poverty of Nations* (New York: W. W. Norton, 1999) 238–239.

[7]Cameron, *Concise Economic History*, 167–175.

[8]Spiegel, *Growth of Economic Thought*, 228–230.

[9]Cameron, *Concise Economic History*, 130–131.

[10]Adam Smith, *The Wealth of Nations* (New York: Alfred A. Knopf, 1991) 13.

> How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.[11]

Smith did not just concern himself with inborn empathy but with how and why people formed functioning communities:

> The all-wise Author of Nature has, in this manner, taught man to respect the sentiments and judgments of his brethren; to be more or less pleased when they approve of his conduct, and to be more or less hurt when they disapprove of it. He has made man, if I may say so, the immediate judge of mankind; and has, in this respect, as in many others, created him after his own image, and appointed him his vicegerent [deputy] upon earth, to superintend the behaviour of his brethren.[12]

Thus, Smith believed God created people who cared for one another, as well as how they were perceived and received in society. In such a society, the trust necessary for markets and governments to function effectively would be present. This is a more nuanced view than assuming that pure self-interest will lead to desirable outcomes.

productivity is the key to long-term growth and prosperity for developing and developed nations alike

One of Adam Smith's most important insights was that the division of labor made industries and people much more productive. Productivity is measured by the ratio of outputs to inputs. Smith observed a factory of ten workers who each performed specialized tasks. Any single person would have been only able to make 20 pins a day. However, with specialization they were able to increase the production to 240 to 480 a day per person. Division of labor fostered productivity in three ways: specialization allowed each worker to become faster at a smaller number of tasks; it allowed for a decrease in set-up time from one aspect of production to the next; and it facilitated the invention of machinery to complement labor inputs.[13]

Long-run economic growth depends on productivity. Robert Lucas has estimated productivity grew at a rate of one-third of 1 percent for the eighteenth century. It increased to 1 percent for the nineteenth century, and it grew at 2.4 percent from 1900 to 1960. World productivity has grown by 4 percent since 1960. A 2 percent rate of growth would mean that living standards would double every thirty-five years.[14] A rate of 4 percent would halve that time to 17.5 years. As an example, in the United States the same amount of inputs used in 1948 would produce 65

[11]Adam Smith, *The Theory of Moral Sentiments* (London: George Bell & Sons, 1907) 1.

[12]Ibid., 185.

[13]Spiegel, *Growth of Economic Thought*, 245.

[14]Robert E. Lucas, "The Industrial Revolution: Past and Future," *The Region* (May 2004), http://www.minneapolisfed.org/research/pub_display.cfm?id=3333 (accessed 3 February 2010).

percent more in 1981.[15] Productivity is the key to long-term growth and prosperity for developing and developed nations alike.

Rationality, Self-Interest, and Costs

Economic models rely on several basic assumptions. First, people are rational beings who operate in their own self-interest in order to maximize their utility or satisfaction. People attempt to maximize satisfaction given the scarcity of both time and money. Buyers search for goods and services that give them the greatest satisfaction at the lowest price. Sellers search for the right combination of goods or services to sell at a profitable combination of price and quantity. The pooled self-interest of willing buyers and sellers in the market produces beneficial results for society as a whole.

These assumptions have led to the *homo economicus* stereotype, which suggests a constantly calculating person who is only interested in increasing personal wealth or money. There are very few economists who hold such a narrow and stifling view of human behavior. It should be noted, however, that these assumptions are at the heart of many of the critiques of economic models. In a recent book, Stephan Marglin contends that the emphasis on individuals and markets in economic models ensures that communities are weakened.[16] He believes devotion to others, not to self, should be the cornerstone of human behavior. Today, most economists understand that human behavior is more complicated than the simple pursuit of self-interest. Yet, overall, economies that are primarily market based have produced higher standards of living for both private and public goods than socialist economies. It is difficult for communities to thrive when there is a lack of food, clothing, and shelter.

The underlying belief in self-interest also leads to the important economic notion that incentives matter. Subsidize something, and you will have more of it. Tax it, and you will have less. Economists have apparently convinced most politicians of this, as witnessed by the consistent drumbeat for raising taxes on cigarettes, liquor, and, lately, sugar and soft drinks. Legislators, like economists, believe that if prices for soft drinks go up, then people will buy less of these economic bads.[17]

Adam Smith wrote about the salutary effects of trade on England in *Wealth of Nations*. Trade theory relies on the use of two terms: *absolute* and *comparative advantage*. A person or country has an absolute advantage when they are able to produce more of all goods. The United States can produce more of every type of goods than Singapore. A country can have an absolute advantage in every product, but they cannot have a comparative advantage in all products. If two entities are pro-

[15]Sylvia Nasar, "Productivity," *The Fortune Encyclopedia of Economics*, Library of Economics and Liberty, http://www.econlib.org/library/Enc1/Productivity.html (accessed 2 February 2010).

[16]Stephan A. Marglin, *The Dismal Science: How Thinking Like an Economist Undermines Community* (Cambridge, MA: Harvard University Press, 2008) 161.

[17]An economic "bad" is a product or service that we consume that is harmful for us.

ducing two goods, then each one of them will be better at producing one or the other but not both. Suppose the two commodities are oranges and soybeans grown, say, in Florida and Minnesota. It is possible to grow oranges in Minnesota, but it would be very expensive. Consequently, the cost of oranges produced in Florida is lower, and vice versa for soybeans. One of today's economic worries is the decline in our manufacturing competitive advantage, which has worsened the economic condition of previously middle-class factory workers. We will return to this topic later.

An* externality *is the term economists use to describe a situation where bystanders to a market transaction are affected either positively or negatively by it. You may pay for a flu shot and receive some private benefit, but you are also benefiting society by being immunized.

Market economies use prices to convey information about the cost of production and the value of the item. Problems arise when there is a difference between private costs and social costs. For example, smokers bear the private costs of smoking, but society as a whole bears the cost of the extra medical expenses for the average smoker. An *externality* is the term economists use to describe a situation where bystanders to a market transaction are affected either positively or negatively by it. You may pay for a flu shot and receive some private benefit, but you are also benefiting society by being immunized. Typically, when benefits to society exceed private benefits, then people will consume too little of that good or service, for example, education. For a market economy to function, consumers must make their decisions based on the total costs and benefits of any action. Cigarette taxes are a way of ensuring smokers make their decisions on the full cost of smoking, both private and public.

Traffic has social costs of congestion and pollution, which exceed the private costs of driving. In order to curtail traffic, the city of Paris initially bought 20,600 bikes at a cost of $3,500 per bike. Designed to be very sturdy and easily accessible, they could be rented at one location and returned to another. Rental prices were one euro a day (approximately $1.40). They were popular, with daily usage ranging from 50,000 to 150,000 rentals a day. Unfortunately, over 80 percent of the bikes have either been severely damaged or stolen. "The symbol of a fixed-up, eco-friendly city has become a new source for criminality," editorialized the *Le Monde* newspaper.[18] *Tragedy of the commons* is the term given to this type of situation where, because no one owns the resource, no one takes care of it. Incentives work

[18]Quoted in Steven Erlanger and Maìa De La Baume, "French Ideal of Bicycle-Sharing Meets Reality," *New York Times*, 30 October 2009, http://www.nytimes.com/2009/10/31/world/europe/31bikes.html?_r=1&scp=1&sq=French%20Ideal&st=csettp:// (accessed 3 February 2010).

better when they are geared toward sinners rather than saints, because there seem to be more of the former than the latter.

Pure self-interest, without moral underpinning, gives rise to situations where people behave rationally from a personal perspective but inappropriately from a societal perspective, as exemplified by the recent financial crisis. In this case, societal institutions were unwilling to stop taking risks that in hindsight seem foolish, and in some cases even encouraged people to do the same—for example, zero-down-payment mortgages. It is understandable why average people, when observing the high salaries given to Wall Street executives and mortgage brokers, believe all of our financial problems are their fault and decry a culture of greed. It is also easy to suppose that only the purveyors of mortgages, bankers, and other financial types were motivated by and acted on greed. But is *greed* another name for self-interest, and did it only affect financial professionals?

in a model of human behavior based purely on rational economic principles, moral and cultural beliefs should not affect behavior, but they do

Most home buyers also behaved in a self-interested fashion and continue to do so. While some households facing default were misled and treated unfairly, others signed mortgage papers knowing they would be unable to make any payments. And some people defaulted on their homes even though they still had the income necessary to make the payments. A recent paper evaluated the likelihood of strategic defaults by homeowners and when they would occur.[19] Variables determining the likelihood of default were the amount owed over the value of the home, the length of time in the home, number of children, the prevalence of foreclosures in a person's zip code, and moral beliefs regarding foreclosure. In a model of human behavior based purely on rational economic principles, moral and cultural beliefs should not affect behavior, but they do.

In previous periods of home price declines, less than 10 percent of mortgage holders defaulted.[20] Now, for the first time since the Great Depression, home prices nationally have declined by an average of 20 to 30 percent. Some areas have seen drops of 40 to 60 percent—for example, Las Vegas and parts of California. At some point, it is rational for homeowners to just walk away. It was estimated that 26 percent of home foreclosures were strategic rather than necessary, because those homeowners could have continued to make payments.[21] One of the most fascinating aspects of this study was the conflict between economic rational behavior and

[19]Luigi Guiso, Paola Sapienza, Luigi Zingales, *Moral and Social Constraints to Strategic Default on Mortgages*, preliminary ed., Financial Trust Index Working Paper Series, July 2009, http://www.financialtrustindex.org/images/Guiso_Sapienza_Zingales_StrategicDefault.pdf (accessed 3 February 2010).

[20]Ibid., 3.

[21]Ibid., 1.

moral beliefs against default. As the amount of money owed over the value of the home increases, the intention to default rises for everyone, yet people who believe that default is morally wrong are always less likely to walk away from their mortgage. Adam Smith would not be surprised. People are rational actors, but differences in moral and cultural attitudes are reflected in substantive differences in behavior. However, it is worth pondering the ethics of this situation, because if both banks and homeowners made a bet on housing prices, then why should only one side lose when housing prices decline?

Income, Wealth, and Development

As we turn to macroeconomics, the recent hard times should not blind us to the rapid economic progress that has occurred in the last two hundred years for the developed world. Rapid income growth and the reduction in absolute levels of poverty have happened in the last twenty-five years for developing nations, especially India and China. Despite recent setbacks, the world is on track to reach the United Nations Millennium Project, which had a goal of a 50 percent reduction in the number of people living in abject poverty or on less than $1.25 per day. A secondary goal was to achieve full and productive employment for all. These goals all require consistent growth in national income.[22]

The traditional measure of national income is the gross domestic product (GDP). GDP measures the market value of goods and services produced within a country using four different categories: consumption, investment in plant and equipment, government, and international trade (exports and imports). Consumption is almost 70 percent of GDP in the United States. Economists use GDP as a snapshot of living standards within a country. GDP estimates are correlated with but don't necessarily measure all improvements or declines in living standards. There are many well-known problems with these numbers. Thus, GDP estimates should be considered as one piece of evidence about how well the average person in a country lives, but not the only measure.

For example, the exclusion of nonmarket goods means that the GDP doesn't completely reflect true living standards.[23] Megan McArdle[24] and Michael Mandel[25] have recently joined a long history of critique of the GDP numbers. Countries with substantial portions of subsistence farmers look poorer than they actually are because GDP does not incorporate any estimates for home production of food or clothing. McArdle joins feminist economists in noting that the exclusion of home and/or nonmarket production drastically undercounts women's contributions, particularly because it is mostly women involved in nonmarket activities. The

[22]"Eradicate Extreme Poverty and Hunger," MDG Monitor, Tracking the Millennium Development Goals (United Nations Development Programme, 2007), http://www.mdgmonitor.org/goal1.cfm (accessed 3 February 2010).

[23]Katherine G. Abraham, "What We Don't Know Could Hurt Us: Some Reflections on the Measurement of Economic Activity," *Journal of Economic Perspectives* 19/3 (2005) 3–18.

[24]Megan McArdle, "Misleading Indicator," *Atlantic* 304/4 (2009) 36–38.

[25]Michael Mandel, "The GDP Mirage," *Business Week* (9 November 2009) 35–38.

value of a homemade meal in GDP includes only the dollar value of the inputs, but does not count as a cost the time of the person cooking the meal. On the other hand, any restaurant meal counts the dollar value of the sale (which includes, of course, labor) and is likely much higher, even if it is of lower quality than the homemade meal. GDP may increase when a woman takes a job outside the home and buys dinner instead of making it, yet she may consider her life to be worse, not better. Nationally, attention has been drawn to health-care spending. GDP measures health costs and counts them as the output. Yet, this implies that the health care of today is the same as that of twenty years ago, so any improvements in health measured by lower pain and longevity are simply ignored, leading us to undercount the true increase in living standards provided by health care.[26]

Another well-known problem occurs because economic bads, such as pollution, are not subtracted from GDP estimates. Mandel worries that companies have increased profits in the short term by slashing research and development, but have harmed our country's long-term prospects even as GDP turns positive.[27]

as long as productivity exceeds the rate of population growth, then economies will continue to grow richer over time

Thomas Hobbes famously described human lives as "solitary, poor, nasty, brutish, and short," which was an accurate description for most of history.[28] Robert Lucas has estimated that per person income stayed constant at approximately $400 to $800 per year for thousands of years up to around 1800.[29] World income began to grow rapidly with the advent of the industrial revolution due to increases in average annual productivity.

Angus Maddison's economic growth model is predicated on how economies use labor, equipment and buildings, and energy.[30] *Labor* incorporates both measures of hours worked and educational levels. Economists use the term *human capital* to refer to a person's set of skills, which is a combination of education, experience, and on-the-job training. Lucas believes the growth of human capital is the most critical factor for economic development.[31] As long as productivity exceeds the rate of population growth, then economies will continue to grow richer over time.

Trading between countries has exploded over the last century, yet globalization and trade have been contentious issues in the United States even before the

[26] Abraham, "What We Don't Know," 13.

[27] Mandel, "GDP Mirage," 37.

[28] Thomas Hobbes, *Leviathan*, http://thinkexist.com/quotation/no_arts-no_letters-no_society-and_which_is_worst/179203.html (accessed 28 September 2009).

[29] Lucas, "Industrial Revolution."

[30] Angus Maddison, "Contours of the World and the Art of MacroMeasurement 1500–2001" (Ruggles Lecture, IARIW 28th General Conference, Cork, Ireland: August 2004), http://www.ggdc.net/maddison/articles/ruggles.pdf (accessed 3 February 2010).

[31] Lucas, "Industrial Revolution."

current recession. One of the lessons from the Great Depression is that restricting trade does not increase the home country's income, but rather decreases it. The Hawley-Smoot Act, signed into law in June 1930, is considered by economists to be an important policy mistake of the Great Depression, despite the fact that exports then were only five percent of the GDP. This bill raised tariffs by an average of 6 percentage points on some agricultural products. Other countries retaliated, and overall international trade plummeted. It was an unintended consequence of the bill.[32] Most economists believe the Hawley-Smoot Act was not itself responsible for the depth and the length of the Great Depression, which lasted from 1929 until the beginning of World War II, but that its passage sent the wrong signal. Imports did decrease, but so did our exports. Tariffs are always met with opposing tariffs.

One of the most worrisome trends from the current recession is the steep fall in the level of global trade. Currently, both imports and exports in the United States have fallen at a rate similar to that in the 1930s.[33] Our job as citizens is to ensure that our labor force is educated and able to compete in the global market, because decreasing global trade is cause for concern not only for the developed world but even more so for developing countries.

Continuing Poverty

The earlier positive numbers about economic growth obscure the reality that some nations have been growing either very slowly or actually declining. In these countries, people were poorer in 2000 than they had been in 1970.[34] Countries are not poorer because no one has been trying to help. Countries grow because of interplay among resources: labor, plants and equipment, and energy use. Country-specific factors matter, too—especially good government, including an independent judiciary. William Easterly and Dambisha Moyo are warriors against poverty who argue that grand plans to end poverty have repeatedly failed, but the proposed solutions only seem to involve bigger plans.[35] Easterly notes that 2.3 trillion foreign-aid dollars have been spent in the last fifty years in Africa with very little to show for the money.[36] He contends there is a discrepancy between "planners" and "searchers." Planners develop big plans and big goals, but they fail to find the workers to actually carry out the plan. In the meantime, searchers don't begin with a big plan, but rather begin at the local level to coordinate people and resources in order to provide goods and services.

[32] Ben Stein, "The Smoot-Hawley Act Is More Than a Laugh Line," *New York Times*, May 9, 2009, http://www.nytimes.com/2009/05/10/business/10every.html?_r=1&scp=1&sq=SmootHawley&st=cse (accessed 3 February 2010).

[33] Menzie Chin, "Update on US Exports and Imports: The Collapse Continues," *Econbrowser*, June 23, 2009, http://www.econbrowser.com/archives/2009/06/update_on_us_ex.html (accessed 3 February 2010).

[34] Paul Collier, *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done about It* (Oxford, UK: Oxford University Press, 2007) 9.

[35] Dambisha Moyo, *Dead Aid* (New York: Farrar, Straus & Giroux, 2009).

[36] William Easterly, *The White Man's Burden* (New York: Penguin, 2006) 4.

At the 2005 Davos meeting of the World Economic Forum, Sharon Stone helped raise $1 million for bed nets to help eliminate malaria. No one asked why, if bed nets were effective and inexpensive, a small portion of the $2.3 trillion in previous aid hadn't bought and distributed bed nets to a majority of the population. In fact, bed nets had indeed been sent to Africa, but they often ended up on the black market and used as fishing nets or bridal veils, instead of the intended use of protecting pregnant women and children under five from mosquitoes.

In the meantime, a Washington, D.C., agency came up with a system whereby they funded an initial allocation of nets and worked with local aid agencies to distribute them to the field. The program was self-funded, because nurses at local maternity clinics in the countryside sold them for 50 cents but were able to keep a profit of 9 cents per net. This gave them a substantial incentive to ensure that nets were always in stock and available. Stores also sold the nets to wealthier customers for $5 each. The profits from the stores subsidized the purchase of new nets for the clinics. This two-channel model increased the number of children under five who slept under a net from 8 percent to 55 percent between 2000 and 2004. The number of pregnant women sleeping under the nets also increased by a similar proportion. In a neighboring country, where the remaining nets were simply distributed, over 40 percent of the nets were not used.[37] Local searchers harnessed self-interest to produce a better result than large-scale, top-down plans.

Moyo argues that, instead of more aid, African countries should use microfinance and increased trade with China. Microfinance projects are perfect examples of searcher projects where local people find projects that make life better for the entrepreneur and her customers. Easterly's and Moyo's experiences lead them to argue that we should forsake ineffective large-scale plans and focus our resources towards local searchers. Attempting to improve life for the world's poor is a moral imperative, but ineffective actions may be worse than doing nothing at all. However, as Easterly notes, instead "we might find that the ones most likely to 'save Africa' are Africans themselves," if we unleash the ability of entrepreneurs to coordinate resources to produce a better life for their families.[38]

WHAT NOW?

The invisible hand of the market is an unparalleled coordinating mechanism that has yet to be matched by any top-down attempt to manage an economy. The market and the ability of average people to own property and decide how to use their labor has enabled the United States to become a prosperous country, where citizens are not only able to buy more private goods and services but also to provide very high levels of public goods, for example, mandatory K-12 education. Our wealth has also enabled us to become a generous country that is able to donate billions in charity every year.

[37] Ibid., 14.

[38] William Easterly, "Can the West Save Africa?" *Journal of Economic Literature* 47/2, 373–447.

Adam Smith reveled in the ingenuity of small businesses and merchants. Luther changed what it meant to have a vocation and encouraged people to do their work for the glory of God. Businesses run with honesty and integrity can be a powerful antipoverty program within communities. Winston Churchill wondered about the lack of respect given to business and commented, “Some people regard private enterprise as a predatory tiger to be shot. Others look on it as a cow they can milk. Not enough people see it as a healthy horse, pulling a sturdy wagon.”[39]

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Our congregations are full of searchers pulling sturdy wagons for which we should be grateful. The market has harnessed their self-interest and their talents in order to meet the world’s needs. They provide goods and perform services in all types of businesses, nonprofits, and governmental agencies. Yet all jobs are not vocations. In the church, we should help members understand there is a difference between a job and a vocation. In our vocations, our self-interest is tempered by empathy for others and our understanding that our work should be done for the common good. If mortgage brokers had not sold loans that could not conceivably be repaid, and if borrowers earning $75,000 had not taken out mortgages for $400,000, might we have prevented the financial crisis? Adam Smith argued several centuries ago that empathy for others was a necessary component of a well-functioning market system. Christians are not always ethical, and others are not always unethical, but a true sense of vocation requires us to strive for such behavior even if we don’t always succeed.

Economics is not just an abstract science, irrelevant to everyday lives, because we all interact with the market system every day. Public policies would be better if we acknowledged the rational behavior underpinnings that still underlie most daily decisions, instead of designing such policies for perfect people. The often forgotten concept of opportunity cost is critical. Households, churches, and governmental bodies never have enough money for all of our desired projects. It is easy to forget that money spent on one activity is not available for other activities.

Adam Smith was equally concerned with moral behavior and economic actions. New rules and regulations will not help if underlying moral standards are not altered. The world will be a better place if we perform our work with empathy and concern for others, tempering our natural self-interest. There is work for all of us in today’s world.

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[39]Quotations Book, 2007, http://quotationsbook.com/quote/5096/ (accessed 3 February 2010).