

“Maak wat” – Reception Speech of Sebastian Panreck, 27th February 2024, Vatican City

Dear Cardinal Marx,

dear President Tarantola,

dear Ladies and Gentlemen,

my name is Sebastian Panreck, I am a PhD student of Prof. Dr. Christian Müller and research assistant at the University of Münster in Germany. First of all, I would like to thank you for giving me the great opportunity to speak about my research today in the Vatican, and thank you for the honourable scholarship. To introduce my dissertation project, I would like to begin with a quote from the encyclical *Centesimus Annus* by John Paul II.:

“A traditional society was passing away and another was beginning to be formed – one which brought the hope of new freedoms but also the threat of new forms of injustice and servitude.” (John Paul II. 1991, CA, 4)

This quote reflects the socio-political context of *Rerum Novarum* in 1891. New problems such as the “worker question” (CA, 5) emerged in Europe; child labour and mass impoverishment also required a socially just response that was compatible with human dignity. What from a naive Western perspective seems like a relic of days gone by is still very relevant today, especially for many disadvantaged people in the global south. Various factors cause people, sometimes even entire villages, to leave their homes and migrate to a “new world”. From an economic perspective, people leave traditional subsistence farming in rural communities to work and live in more anonymous (sub)urban areas, where they earn a living as informal producers and sellers in large, competitive open-air markets. This is how megacities have emerged in recent decades, which are typically (as in the time of *Rerum Novarum*) “divided into two classes separated by a deep divide” (RN, 132). The global question of an economic and social model that is fair, inclusive, sustainable, and compatible with human dignity is more relevant than ever. In the words of Pope Francis: “Today's poverty is an outrage” (Economy of Francesco 2022).

The focus of my cumulative doctorate is the research question of how market integration changes the fairness behaviour of individuals, using the example of indigenous people in Bolivia. Although I am doing my doctorate at the University of Münster in the Department of Economics where I also work as a research assistant and lecturer, my project is carried out in Bolivia. There are several reasons for this decision: Bolivia has always been a focus of political and church development aid, especially in Germany. In addition, it is one of the poorest countries in Latin America with huge social problems such as inequality, racism, exploitation, child labour and, of course, migration of the indigenous people to informal (sub)urban areas.

Theoretically, two theses can be opposed to each other when facing my research question of how market integration changes the fairness behaviour of individuals. On the one hand the “poor but fair” thesis and the “poor but efficient” thesis on the other.

According to the so-called “poor but fair” thesis, indigenous people from the countryside are expected to be more fair-minded due to the lack of market integration. This would mean that people living in traditional economies value justice more, care more about others, and are less likely to seek their own advantage in a market environment. Following this perspective, market integration makes people more self-interested utility maximisers, but less moral. The concern about fairness-damaging behaviour triggered by market integration is widespread, also in Christian social ethics. Pope Francis (2018) tells us, the big temptation that was felt throughout the history, by Christians, by man and by the Church has always been wealth.

In standard economics, this position is seen as too pessimistic and the “poor but fair” thesis as too romantic. Instead, economists rely on the invisible hand of Adam Smith, i.e., self-interested people act usually in the public interest. The neoclassical argument of the “poor but efficient” thesis is very simple and goes as follows: wealth is the central concept of prosocial behaviour because it is easier to give when you have something; in economic terms: the opportunity cost of fairness behaviour is too high for the poor. The “poor but efficient” thesis has become much more popular due to recent findings in behavioural economics (Mullainathan and Shafir 2013), but it still suffers from a lack of empirical evidence.

To test these theses I conducted two subprojects, which are the most important ones of my dissertation project. I am going to present them in the following.

In my first paper I analyse the effect of market integration on fairness behaviour of individuals due to urbanization. Conducting surveys, I compare indigenous people from the countryside working as small-scale farmers with indigenous people in El Alto, a suburb of La Paz, working as vendors in large competitive markets. A control group is the wealthy upper class from the German club in La Paz. My questionnaire based on the design of Kahneman et al. (1986) and Frey and Pommerehne (1993) is about evaluating the fairness of different allocation mechanisms in a suddenly occurring scarcity situation. Fairness is especially measured by later addressing the participants as sellers who benefit from a price increase if they break a fairness rule. The key findings are as follows: The fairness defection is strongest among the indigenous people in the countryside, while the wealthy control group in La Paz shows the lowest defection. Although the core results of the study support the “poor but efficient” thesis, it is also clear that basically everyone seems to have a general preference for procedural justice, in the sense that they consider allocations on a “first come, first served” basis most acceptable for scarce goods. Market allocation – i.e. auctions or take-it-or-leave-it – on the other hand, is rather preferred by people living in the urban or suburban areas, and less on the countryside.

We could interpret the results of subproject 1 that the market economy and welfare do not hinder morality, but rather strengthen it. Of course, the question now is how valid this statement is. To analyse the effect of market integration on fairness behaviour more precisely, I try to isolate the effect of market integration with the following approach in subproject 2. El Alto, the suburban satellite city of the seat of government La Paz, is characterized not only by large open-air competitive markets in the informal sector, but also by child labour. In some districts of the city, it is not uncommon for children to help their parents earn an income, for example by selling, cleaning shoes or babysitting. To analyse how child labour changes fairness behaviour, I compare working versus non-working students (14 to 17 years old) in public schools. As a methodical approach, I use a simplified form of the ultimatum game (Murphy et al. 2011). In short, I find out that the working students show a higher fairness behaviour than the non-working students.

The results of subprojects 1 and 2 show no evidence of a fairness corruption through market integration. Instead, market integration seems to have a weak positive effect on fairness behaviour. However, there are many very important limitations that prevent me from claiming causality. First, it is important to point out that the markets examined in my surveys are likely ideal markets like those in economics textbooks, i.e. no participant has market power. However, particularly in the Global South, there are many other market situations where people are exploited by individuals and companies. Second, fairness is only measured in a market setting; but we can be sure that there are many non-market environments in which fairness is a central concept of social interaction, particularly on indigenous countryside.

Before finishing my speech, I want to close with some personal remarks on the relationship between markets and ethics. Aristotle (1999) told us that politics, when having a good constitution, aims for the common good, but in a bad one it only aims for the benefit of the rulers themselves. In the same way, I guess, good science is first about contributing to the common good, i.e. striving for truth; and then, based on these findings, improving justice. Individual goals, such as using science for obtaining a particular job position, should never play the decisive role.

Similarly, Jesus told us in the Gospel no one can serve two masters, you cannot serve God and money (Mt 6,24). Like I have already mentioned before, Pope Francis (2018) tells us, the big temptation that was felt throughout the history, by Christians, by man and by the Church has always been wealth. For me personally, economics should not concentrate too much on improving wealth but rather on solving social problems. In other words, economics is not about loving markets, but about loving and solving allocation problems. I always tell my students in my economics courses: Life is not a Lagrangian optimization problem and politics is more than a social welfare function. So, we should not focus too much on formally describing problems, but rather on solving them. Economy should stand in solidarity with the poor, the sick and the outcast. A transformation of economy is needed, including a new brotherhood of men, dedicated to the common good Aristotle described very well. "The world of today is mostly deaf", Pope Francis (2018) says. And as

an economist who tries not to forget the ethical dimensions of social questions, it is the main question of my scientific life: what is the role of markets in an almost deaf world? However, we should not lose focus on ourselves, on our individual responsibility in every possible situation:

I grew up in a small village in the west of Germany, in the countryside, so to speak. And I still remember my grandparents always saying to me in their old local language called “Plattdeutsch”, which almost no longer exists: “Maak wat”. “Maak wat” means “do something”, in the sense of “work for the common good”, “care for others” and “use the time that you have on earth”. And this is what I try to do – in my dissertation project, as a lecturer, in the Economy of Francesco, in the Young International Network of the Centesimus Annus Pro Pontifice Foundation, in my family and on many other occasions. And apart from my research results, I want to share this message with you, just these two words in the beautiful sound of my grandparents’ voices that I miss so much: “Maak wat”, do something. You help me to do something. Thank you very much.

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