APPLYING CATHOLIC SOCIAL TEACHING TO ECONOMICS AND ECONOMIC AFFAIRS

October 26, 2014

Edward J. O'Boyle, Ph.D.
Senior Research Associate
Mayo Research Institute
www.mayoresearch.org
edoboyle737@gmail.com

The central problem for economists with a special interest in Catholic social teaching is deciding how it applies specifically to the way in which we think about economic affairs. Simply put, what difference does Catholic social teaching make with regard to our understanding of economics and economic affairs?

In that regard, the *Compendium on the Social Doctrine of the Church,* which was commissioned by John Paul II, was intended to provide a systematic compilation and distillation of materials on "the foundations of Catholic social doctrine." The Pontifical Council of Justice and Peace was put in charge of this task that involved reviewing the relevant materials including the papal encyclicals, statements of the bishops, and the contributions of scholars, and then condensing them as necessary. The Council's efforts were published in 2005. [*Compendium*, p. xvii].

The *Compendium* is a useful publication but falls short of our requirements. To illustrate, the *Compendium*'s detailed references section contains not a single reference in the *Review of Social Economy*, which is the official publication of the Catholic Economic Association (now the Association for Social Economics) and has been published continuously since the early 1940s.

In our effort to sort through the published materials on Catholic social teaching as it applies to economics and economic affairs we have relied principally on the *Review* and the other published works of prominent Catholic social economists including notably: Joseph Becker SJ, Peter Danner, Bernard Dempsey SJ, Thomas Divine SJ, Franz Mueller, William Waters, and Stephen Worland. Some of our own work is included as well. Our interest centers on these ten subjects in the following order:

freedom
market system
economic gain
economic justice and ill-gotten gain
just price
just wage
social justice
private property
the "third way"
government intervention and the principle of subsidiarity

We are in effect confirmed in this decision by the words of Heinrich Pesch and Oswald von Nell-Breuning, two German Jesuit economists who are the precursors of the Catholic social economists listed above.

> **For Pesch there was no such thing as "Catholic economics." He, a man of prayer, did not hesitate to say in his autobiography, "religion does not produce grain"; respect for the proper creatural causes, accompanied by prayer, however, may.**

Pesch's disciple v. Nell, once said "*the Chair of Peter is not a chair in economics*." [Mueller, p. 65; emphasis added].

References

Mueller, Franz H. 1984. "Heinrich Pesch, SJ, 1854-1926: Social Economist in a Cassock," ***International Journal of Social Economics*****, Volume 11, Number 5.**

Pontifical Council for Justice and Peace 2005. ***Compendium of the Social Doctrine of the Church*****, Washington DC: USCCB Publishing, paperback, available at http://www.vatican.va/roman_curia/pontifical_councils/justpeace/documents/rc_pc_justpeace_doc_20060526_compendio-dott-soc_en.html.**

I. FREEDOM

In economic affairs, as in other human activity, there are three kinds of freedom: freedom *from*, freedom *to*, and freedom *for*.[1] Freedom *from* means the absence of any physical constraint or psychological compulsion regarding personal activity. For example, freedom from a federal government that does not allow drilling for oil offshore; freedom from a state government that licenses casino gambling knowing that many who gamble are addicted. Freedom *to* refers to the freedom to do as one pleases, to buy and sell, to produce and consume, to borrow and lend, to hire and work, to invest, to innovate, and the like. Freedom *for* is the freedom to become a better person, to strive for human perfection by doing good and avoiding evil, by for instance submitting to the demands of the three principles of economic justice -- commutative, distributive, contributive.[2] Freedom *for* is called perfect freedom by some. [Dulles, p. 7]. We prefer to call it heroic freedom and is attested to in economic affairs for instance by the first-responder, the blood and living organ donor, and the whistleblower.

John Paul spoke eloquently in 1987 about freedom in the United States on the occasion of his meeting in Miami with President Reagan to celebrate the bicentennial of the U.S. Constitution.

> ***Among the many admirable values of this nation* there is one that stands out in particular. It is freedom. The concept of freedom is part of the very fabric of this nation as a political community of free people. Freedom is a great gift, a great blessing of God.**
>
> **From the beginning of America, freedom was directed to forming a well-ordered society and to promoting its peaceful life. Freedom was channelled [sic] to the fullness of human life, to the preservation of human dignity and to the safeguarding of all human rights. *An experience in ordered freedom is truly a cherished part of the history of this land*.**
>
> **This is the freedom that America is called to live and guard and to transmit. She is called to exercise it in such a way that it will also benefit the cause of freedom in other nations and among other peoples. The only true freedom, the only freedom that can truly satisfy, is the freedom to do what we ought as human beings created by God according to his plan. It is *the freedom to live the truth of what we are and***

---

[1] Our understanding of the different types of freedom was greatly enhanced by Grisez and Shaw [pp. 1-10] and Dulles [pp. 1-9].

[2] Commutative justice requires the parties to a marketplace or workplace transaction to exchange things of equal value and impose equal burdens on one another. Distributive justice requires the superior to distribute the benefits and burdens of the group among his/her subordinates in some equal or proportional fashion. Contributive justice requires that insofar as a member of a group receives benefits from belonging to that group he/she must maintain and support that group.

> ***who we are*** **before God, the truth of our identity as children of God, as brothers and sisters in common humanity. That is why Jesus Christ linked truth and freedom together, stating solemnly: "You will know the truth and the truth will set you free" (*Io* 8, 32). All people are called to recognize the liberating truth of the sovereignty of God over them both as individuals and as nations. [John Paul II 1987b, §3; emphasis in original].**

Also in 1987, John Paul makes the extraordinary statement in *Sollicitudo Rei Socialis* that "… one must not overlook that *special form of poverty* which consists in being deprived of fundamental human rights, *in particular* the right to religious freedom and the right to *freedom of economic initiative*. [John Paul 1987a, §42; emphasis added].

Four years later in *Centesimus Annus* John Paul's comments further on the centrality of freedom to human nature and warns against the violent suppression of self-interest.

> **Moreover, man, who was created for freedom, bears within himself the wound of original sin, which constantly draws him towards evil and puts him in need of redemption. Not only is *this doctrine an integral part of Christian revelation*; it also has great hermeneutical value insofar as it helps one to understand human reality. Man tends toward good, but he is also capable of evil. He can transcend his immediate interest and still remain bound to it. The social order will be all the more stable, the more it takes this fact into account and does not place in opposition personal interest and the interests of society as a whole, but rather seeks ways to bring them into fruitful harmony. In fact, where self-interest is violently suppressed, it is replaced by a burdensome system of bureaucratic control which dries up the wellsprings of initiative and creativity. When people think they possess the secret of a perfect social organization which makes evil impossible, they also think that they can use any means, including violence and deceit, in order to bring that organization into being. Politics then become a "secular religion" which operates under the illusion of creating a paradise in this world. But no political society – which possesses it own autonomy and laws – can ever be confused with the Kingdom of God. [John Paul 1991,§25; emphasis in original].**

Notice in the following John Paul's conditional approval of the market economy constructed on freedom and his rejection of socialism as an alternative even in those cases where private capital absolutely controls the decision-making process.

> **In this sense, it is right to speak of a struggle against an economic system, if the latter is understood as a method of upholding the absolute predominance of capital, the possession of the means of production and of the land, in contrast to the free and personal nature of human work. In the struggle against such a system, what is being proposed as an alternative is not the socialist system, which in fact turns out to be State capitalism, but rather *a society of free work, of enterprise and of participation.* Such a society 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 of society are satisfied. [John Paul 1991, §35; emphasis in original].**

Elsewhere in *Centesimus Annus,* John Paul centers attention on the fundamental error of socialism.

> **Socialism considers the individual person simply as an element, a molecule within the social organism, so that the good of the individual is completely subordinated to the functioning of the socio-economic mechanism. Socialism likewise maintains that the good of the individual can be realized without reference to his free choice, to the unique and exclusive responsibility which he exercises in the face of good or evil. Man is thus reduced to a series of social relationships and the concept of the person as the autonomous subject of moral decision disappears, the very subject whose decisions built the social order. From this mistaken conception of the person there arise both a distortion of law, which defines the sphere of the exercise of freedom, and an opposition to private property. A person who is deprived of something he can call "his own", and of the possibility of earning a living through his own initiative, comes to depend on the social machine and on those who control it. This makes it much more difficult for him to recognize his dignity as a person, and hinders progress toward building up of an authentic human community. [John Paul 1991, §13; emphasis in original].**

John Paul's condemnation of socialism derives importantly from the crisis in Eastern and Central Europe in 1989 where two factors played a critical role: "the violation of the rights of workers" and "the violation of the human rights to private initiative, to ownership of property, and to *freedom in the economic sector.*" [John Paul 1991, §§23, 24; emphasis added]. The historical record regarding socialism, he notes, is that human alienation has not been reduced and collectivism has only added to it. The state, he argues, is to be guided by two principles in economic affairs: subsidiarity to assure economic freedom and solidarity to defend the weak, limit the autonomy of the parties who determine conditions in the workplace, and provide basic support for jobless workers. [John Paul 1991, §§ 41, 15].

Rather than condemning profits out of hand, John Paul offers the following conditional approval.

> **The Church acknowledges the legitimate *role of profit* as an indication that a business is functioning well. When a firm makes a profit, this means that productive factors have been properly employed and corresponding human needs have been duly satisfied. But profitability is not the only indicator of a firm's condition. It is possible for the financial accounts to be in order, and yet for the people – who make up the firm's most valuable asset – to be humiliated and their dignity offended. Besides being morally inadmissible, this will eventually have negative repercussions on the firm's economic efficiency. In fact, the purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a *community of persons* who in various ways are endeavouring to satisfy their basic needs, and who form a particular group at the service of the whole of society. Profit is a regulator of**

> **the life of a business, but it is not the only one: *other human and moral factors* must also be considered which, in the long term, are at least equally important for the life of a business. [John Paul 1991, §35; emphasis in original].**

Economic freedom is the foundation of the modern business economy. [John Paul 1991, §32]. Further John Paul re-affirms the Church's commitment to freedom as a necessary condition to assure the "transcendent dignity of the person" [John Paul 1991, §46]. Even so, he recognizes that freedom in economic affairs is not absolute, that it is only one element of human freedom. When economic life becomes absolutized, that is

> **when man is seen more as a producer or consumer of goods than as a subject who produces and consumes in order to live, then economic freedom loses its necessary relationship to the human person and ends up by alienating and oppressing him. [John Paul 1991, §39].**

References

Dulles, Avery 1995. "John Paul II and the Truth about Freedom," *First Things*, August/September.

Grisez, Germain and Russell Shaw 1974. *Beyond the New Morality: The Responsibilities of Freedom,* Notre Dame: University of Notre Dame Press.

John Paul II 1991. "Centesimus Annus," available at www.vatican.va/holy_father/john_paul_ii/encyclicals/documents/hf_jp-ii_enc_01051991_centesimus-annus_en.html (accessed January 25, 2013).

John Paul II 1987b. "Meeting with the President of the United States of America Mr. Ronald Reagan, Address of his Holiness John Paul II," Vizcaya Museum, Miami, September 10, available at http://www.vatican.va/holy_father/john_paul_ii/speeches/1987/september/documents/hf_ jp-ii- spe_19870910_reagan-museo_en.html (accessed December 24, 2012).

John Paul II 1987a. "Sollicitudo Rei Socialis," available at http://www.vatican.va/holy_father/john_paul_ii/encyclicals/documents/hf_jp-ii_enc_30121987_sollicitudo-rei-socialis_en.html (accessed February 14, 2013).

II. THE MARKET SYSTEM

To come to grips with justice in the marketplace (the just price) and in the workplace (the just wage) it is incumbent on us to understand how a market system works. We begin with the two questions that matter most. Who/what determines prices? How do markets allocate resources?

Stating the first question in terms of "what" leads one to think of markets in terms of things that are exchanged such as goods and services and natural resources or more simply supply and demand. Formulating the question in terms of "who" directs one's attention to the human beings who are interacting in the marketplace and the workplace -- buyers and sellers, employers and employees, producers and resource holders. Our approach presents the market system in terms of the human beings who are engaged in their everyday economic activities. Put differently, economic decisions are made not by markets but by economic agents, by living, breathing, existential actualities.

Consumer behavior is described by the principle of demand: the lower the price, the greater the quantity demanded by consumers. Producer behavior is described by the principle of supply: the higher the price, the greater the quantity supplied by producers. Both are general principles and both are descriptive. That is, neither one actually explains consumer/producer behavior, and for both there are exceptions. Vegetarians for example do not buy more beef when beef is on sale, and animal-rights activists are not induced to buy sealskin coats when those coats are offered at a lower price. Producers in general prefer a higher price for their product or service because the higher price makes for a larger profit margin. But some producers are reluctant to raise their prices for fear of losing their customers to a producer with a lower price. Further, larger profit margins can be achieved as well by bringing down the cost of production through improvements in productivity that have the effect of using resources more efficiently.

For more than 100 years, economists were divided as to whether it was the buyer (demand) or the seller (supply) who determined price. Finally, the English economist Alfred Marshall in the 1890s resolved the issue. Marshall stated that asking the question Who determines price? is like asking the question Which edge of the scissors does the cutting? Since any school child knows that the answer to the scissors questions is that both the lower blade and the upper blade do the cutting, Marshall was able to convince economists to think of the question Who determines price? in terms of both buyers and sellers, demand and supply.

The principle of demand can be represented diagrammatically by plotting the price of the product (the independent variable) along the vertical axis and the quantity demanded (the dependent variable) along the horizontal axis. The result is a demand curve that is downward sloping to the right, reflecting the principle of demand: the lower the price, the greater the quantity demanded by consumers. *The placement of the independent variable*

along the vertical axis is a departure from the common practice in other disciplines, such as engineering, of plotting the independent variable along the horizontal axis.

The principle of supply can be represented in like manner by plotting the price along the vertical axis and the quantity supplied along the horizontal axis. The result is a supply curve that is upward sloping to the right, reflecting the principle of supply: the higher the price, the greater the quantity supplied by producers. Here too price as the independent variable is plotted along the vertical axis not the horizontal axis.

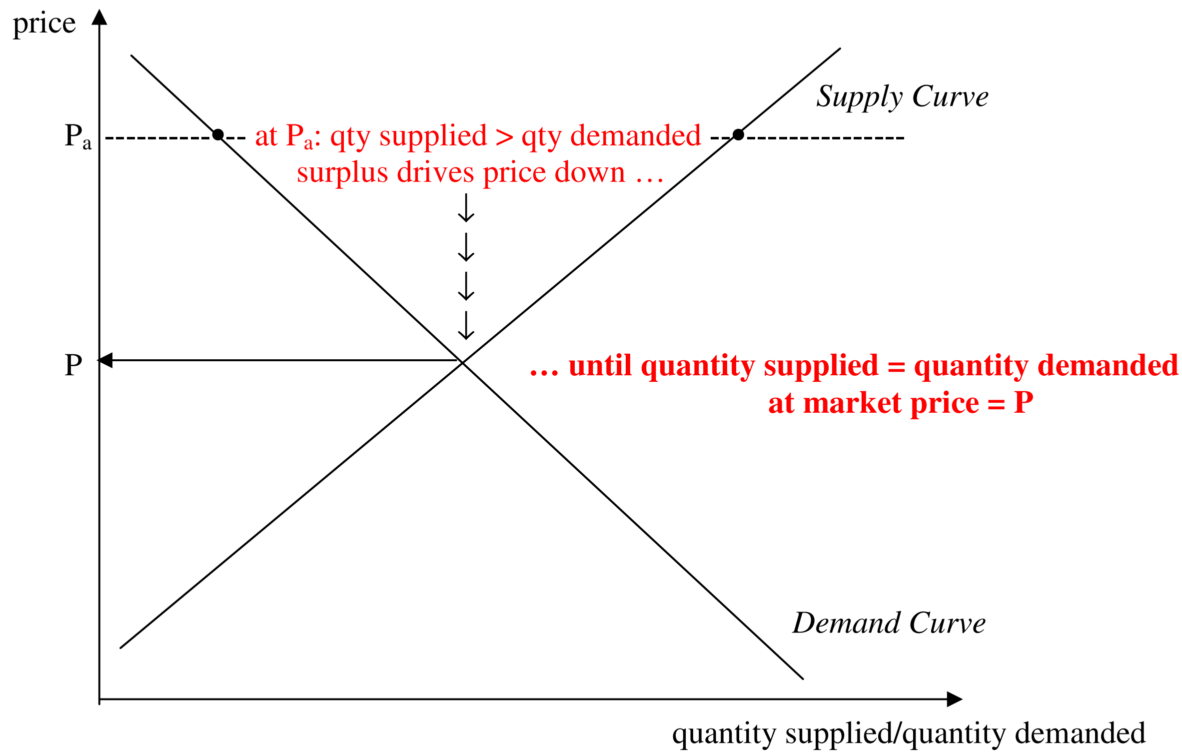
A supply curve that is upward sloping to the right never originates below the origin because below that point prices are negative which means that when a person buys an item from a merchant the buyer gets the item and the merchant pays the buyer to take the item from the store. There is no such thing as a negative price.

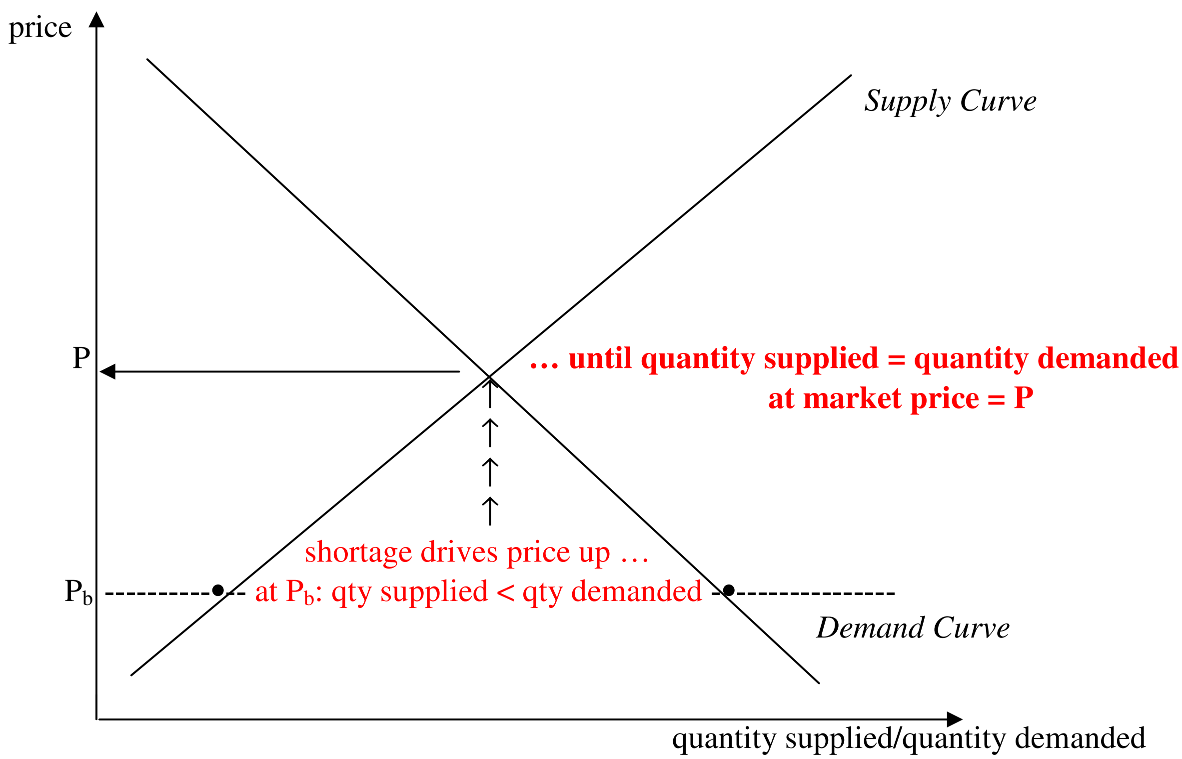
Taking advantage of the analogy to the scissors, Marshall united the supply curve and the demand curve in a single diagram that, when handles are added to the bottom of both curves, has the appearance of a scissors. Thus, the diagram ever since has been known as Marshall's scissors diagram. The market price and the quantity exchanged in a market for a specific good or service are determined by the intersection of the supply curve and the demand curve because only at that intersection are the quantity supplied and the quantity demanded equal, only there are buyers and sellers in agreement. At P, the buyers want to buy exactly the same amount of that product or service as the sellers are willing to offer. The quantity supplied = the quantity demanded. See the diagrams on the following page.

Mainstream economists like to refer to the intersection of the supply curve and the demand curve as the point of equilibrium, and the market price as the equilibrium price. Personalist economists prefer to call that intersection the point of agreement and the market price the agreed price because agreement underscores that markets are places for sorting out differences between humans whereas equilibrium suggests that markets are places for striking a balance between things.

Even so, there is more to understanding how markets determine prices than is represented by the intersection of the supply curve and the demand curve. Markets operate systematically and automatically to produce the conditions whereby buyers and sellers are brought to agreement. Whenever the price is greater than the market price, the quantity supplied > the quantity demand. The resulting surplus sends a clear signal to sellers to lower the price since sellers are interested in selling their products and services not holding on to them. Sellers lower price until the surplus is eliminated. Similarly, whenever the price is less than the market price, the quantity demanded > the quantity supplied. The resulting shortage signals sellers to raise the price until the shortage is eliminated that occurs at the point of intersection of the supply curve and the demand curve, that is when buyers and sellers are in agreement.

WHAT DOES THE AUTOMATICITY PRINCIPLE TELL US ABOUT A MARKET?
a market automatically eliminates surplus/shortage by lower/higher price





This system of unambiguous signals means that the market automatically eliminates or clears out a surplus or a shortage and thereby drives buyers and sellers toward agreement. We refer to this systematic and predictable market reaction to a surplus and a shortage as the automaticity principle. Some markets, however, remove a shortage or surplus much more quickly than others. A stock market functions quickly whereas a labor market or real-estate market operate much more slowly. Thus when we say that markets operate automatically, we do not mean to imply that they always operate quickly.

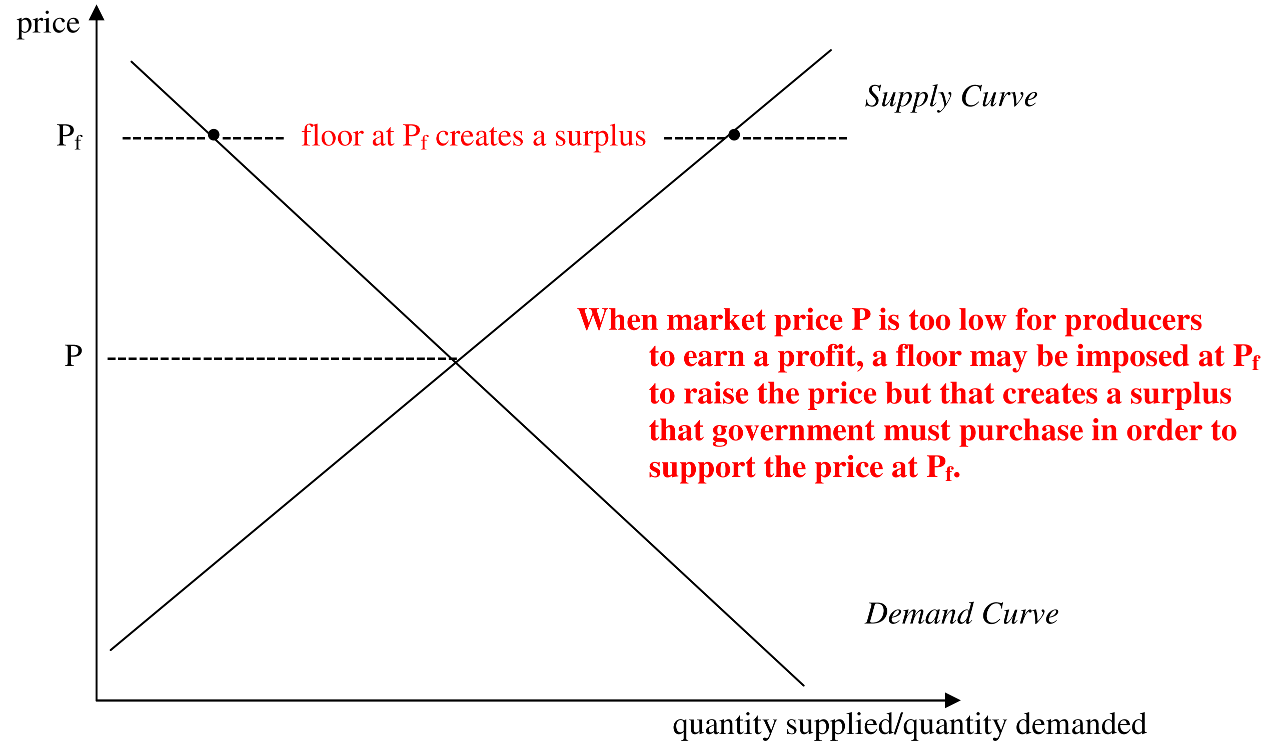
Two problems centering on the price beset the market system. First, what to do when the market price is so high that it is beyond the reach of consumers? Second, what to do when the market price is so low that producers are unable to turn a profit? Government intervention, the organizing principle that operates in the limiting mode, may be brought into play. If the product or service that is unaffordable for consumers is truly needed rather than merely wanted, government might intervene and impose a price ceiling below the market price. By driving the price below the market price, a ceiling (that is easily enforced by urging consumers to call an 800 number to report violators) creates a shortage. To deal with that shortage, some type of rationing scheme may have to be implemented in order to allocate the short supply among consumers. If there is a shortage of gasoline because the government imposed a ceiling on the price of gasoline, it may be necessary to allocate the short supply by issuing gasoline rationing coupons based on need. That is, the ambulance driver would be allocated more gasoline than the stock car driver. Need would be determined by a government agency as happened during World War II and coupons issued accordingly. Under those circumstances, consumers simply have to manage their daily lives without some of the rationed good that they normally would be able to buy. At the store, the merchant would require both the cash and the coupon to sell the rationed item to the consumer. A rationing coupon is not the same as a food stamp. Though both are allotted on the basis of need, the food stamp is a substitute for money, whereas the rationing coupon is a necessary complement. Without the coupon, it is strictly illegal to buy an item that is rationed.

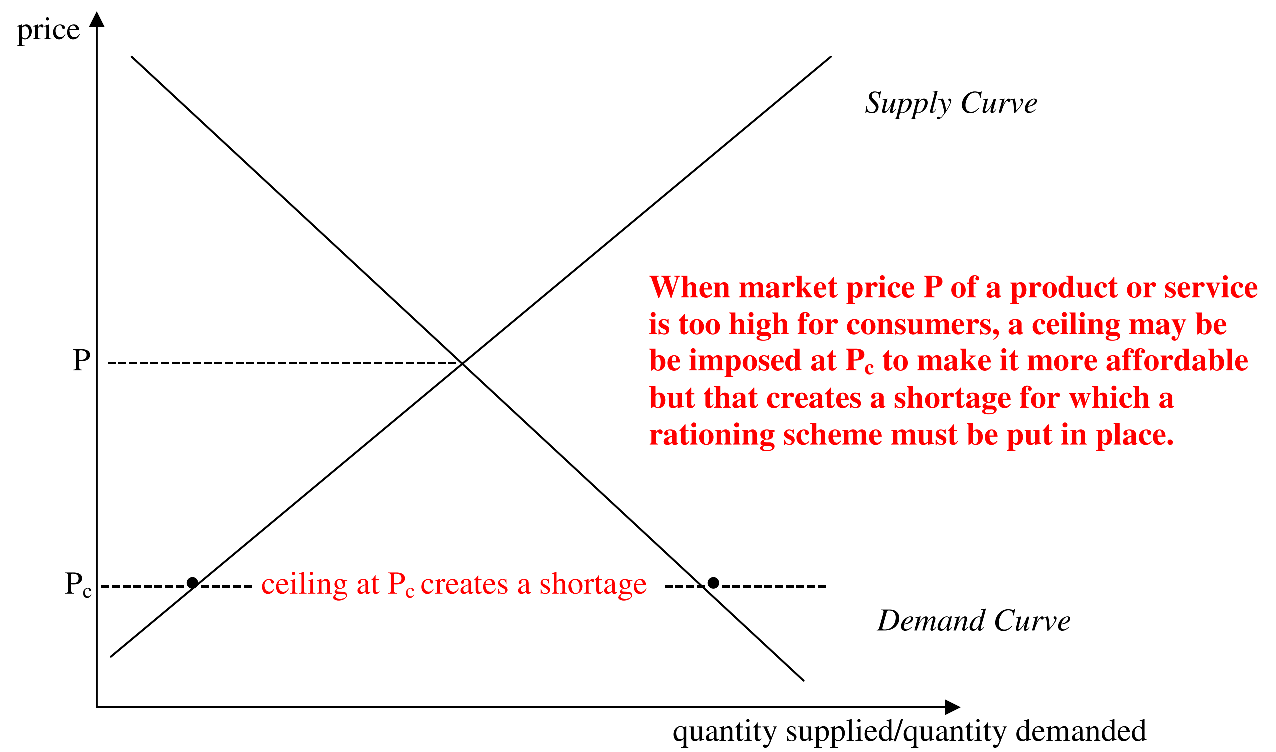
What to do when the price is so low that producers are not able to turn a profit? Again, government intervention could be called upon to provide a price floor, a lower limit to the price that would have the effect of driving the price above the market price. Under those circumstances, a surplus emerges that forces the government to purchase the excess supply in order to prop up the price. We have had price floors for many years in agriculture in order to keep prices high enough to make farming profitable. See the diagrams on the preceding page.

The minimum wage, which originated in the 1930s at $.25 per hour, has the same effect. The resulting surplus is called unemployment and that surplus has been the principal argument of critics of the minimum wage from the very beginning. The principal argument of its advocates is that the United States is a wealthy country and no one should have to work at a wage that is insufficient to provide a decent standard of living. See Stephen Worland's comments on THE JUST WAGE below.

WHAT HAPPENS WHEN PRICE CONTROLS ARE INSTITUTED?

a floor raises the price and creates a surplus; a ceiling lowers the price and creates a shortage





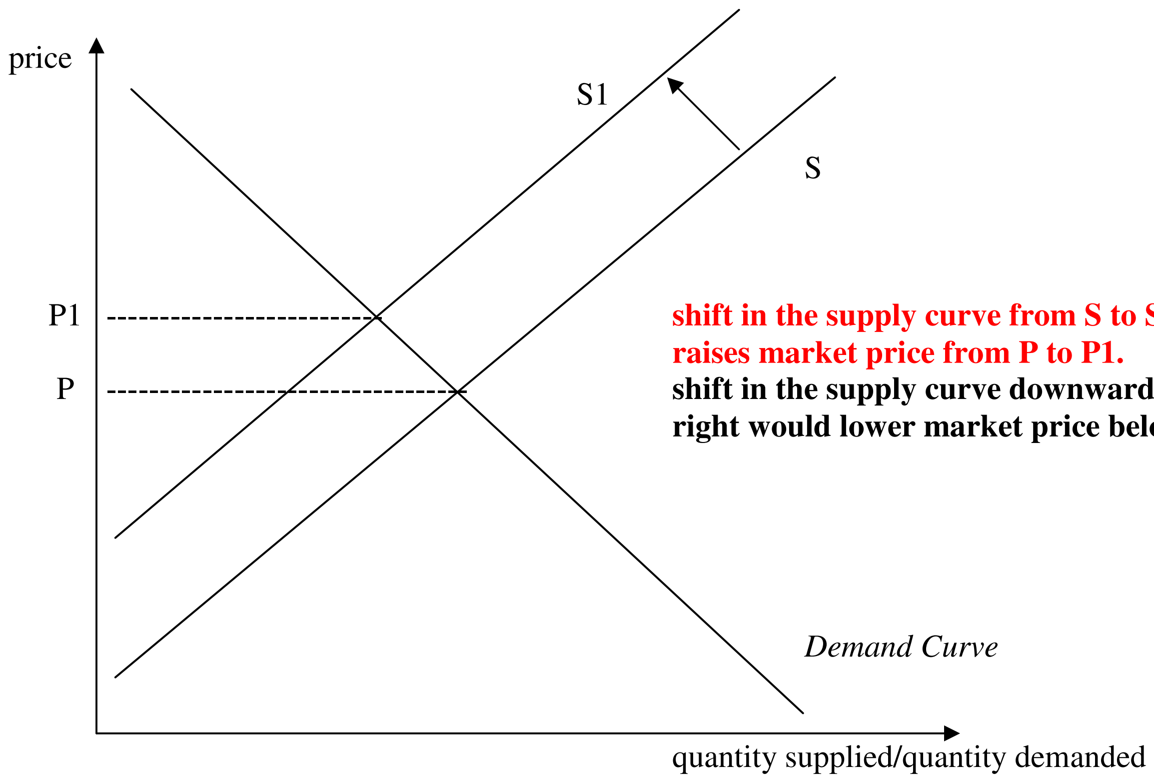
The lesson to be learned from experience with price floors and ceilings is that they do not solve the problem they change the problem from an unaffordable price to a shortage and from an unprofitable price to a surplus. A word of caution. To be effective, a price floor must be imposed *above* the market price, though we are used to thinking of the floor as being *below*. To be effective, a price ceiling must be imposed *below* the market price, though we think of a ceiling as being *above*.

Market-determined prices change because of some fundamental change in the conditions of supply or demand such that the supply curve, the demand curve, or both actually shift. For a supply curve, the shift may be either downward to the right or upward to the left. For a demand curve, the shift may be either downward to the left or upward to the right. A shift in one of the two curves changes the point of intersection between the curve that has remained stable and the one that has shifted. A shift in both at the same time has the same effect: it changes the point of intersection or the point of agreement. See the diagrams on the following pages.

Demand curves shift for one of five general reasons: (1) a change in consumer income; (2) a change in consumer tastes and preferences; (3) a change in the price of a substitute product or service or the price of a complementary product or service; (4) a change in the size or composition of the consumer population; and (5) a change in future price expectations. Supply curves shift for one of three reasons: (1) a change in the cost of resources; (2) a change in technology that improves the efficiency of the production process; (3) a change in future price expectations.

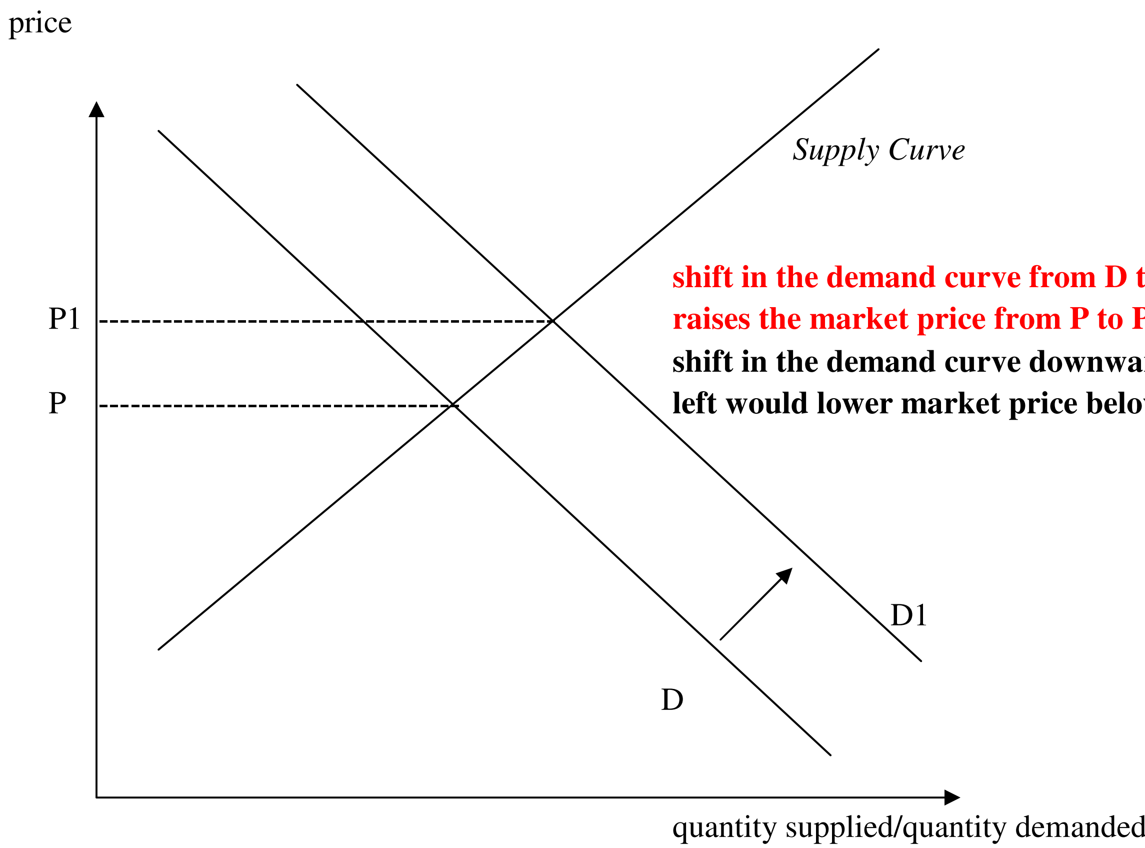
Recall that we began our discussion of the market system with two questions. Who/what determines prices? How do markets allocate resources? We are ready now to turn our attention to the second question. Markets allocate resources through the "pulling force" of prices and the "pushing force" of unmet need. Let us flesh out the meaning of that assertion with the example of two producers, one who faces a shortage market for the product that he/she is producing, while the other confronts a surplus market. See the exhibit below.

WHAT CAUSES A CHANGE IN THE MARKET PRICE?
a shift in the supply curve or …



shift in the supply curve from S to S1 raises market price from P to P1.
shift in the supply curve downward to the right would lower market price below P.

… a shift in the demand curve



shift in the demand curve from D to D1 raises the market price from P to P1.
shift in the demand curve downward to left would lower market price below P.

HOW RESOURCES ARE ALLOCATED IN A MARKET SYSTEM THROUGH THE PULLING FORCE OF PRICES AND THE PUSHING FORCE OF UNMET NEED

Producer A faces shortage of his/her product

⬇

raises price and increases output

⬇

hires more resources and is able to pay more for those resources because the price of the product is rising

⬇

Producer B faces surplus of his/her product

⬇

lowers price and decreases output

⬇

discharges resources and is not able to pay more for those resources because the price of the product is falling

⬇

The resources discharged by Producer B who faces a surplus are attracted to Producer A who is hiring and is paying more for the resources he/she requires because he/she is facing a shortage. This is the way in which mainstream economics explain the allocation of resources in a market economy: the pulling force of prices draws resources away from producers where they are in excess supply and toward producers where they are in short supply, thereby simultaneously remedying Producer B's surplus market condition, and Producer A's shortage market condition.

⬇

Personalist economics adds the pushing force of unmet need. That is, redundant workers and other idle resources are pushed away from producers where they are in excess supply and toward producers where they are in short supply by the hardship and unmet need brought on by their idleness.

III. ECONOMIC GAIN[1]

Markets work on the basis of the economic gain available to the parties engaged in exchange. To explain, every exchange involving economic agents who are well-informed and free to act entails gain for the parties involved: what is gotten in the exchange is more highly valued than what is given up. To illustrate, a person shopping for shoes comes across a pair priced at $118. In deciding whether to purchase those shoes that person routinely asks the question Are these shoes really worth $118 to me? If the answer is affirmative, that person actually purchases the shoes. If the answer is negative, he/she turns away. If that person is not sure, he/she turns away but may return later to buy the shoes provided they really are worth $118.

As with conventional economics, personalist economics differentiates between exchange value and use value. Exchange value is what is given up for the good or service acquired through exchange. Use value is what is gotten, that is the usefulness of the good or service to the person who acquires it.

Under competitive market conditions, exchange value should not vary from one person to the next. The price paid for the same dog food in a supermarket is the same for everyone buying that brand of dog food at that store. However, use value is not the same for everyone who buys that dog food because some persons are more deeply attached to their dogs and derive greater pleasure from feeding and caring for them than do others. While exchange value is determined by market conditions at the time and place of the exchange, use value is determined by the value systems of the uniquely different persons involved in the exchange. Exchange value is an objective piece of information. Use value, on the other hand, is a subjective human experience. For every one of the persons involved, use value (what is gotten) must be greater than exchange value (what is given up). Without that gain, the exchange cannot be carried out.

The opportunity cost of purchasing the $118 shoes is the gain available from whatever else might have been purchased with that money but was forsaken once the shoes were bought. If the shoes meet a need, as with safety shoes required on the job -- the opportunity cost is zero because nothing else will do. If, however, the shoes satisfy a want, are desired but not required, there is an opportunity cost in purchasing them. Nevertheless it is reasonable to presume that the shopper would buy the desired shoes only if they represent the greatest gain possible.

Mainstream economics admits of no circumstance in which the opportunity cost is zero because all consumer behavior is construed in terms of want satisfaction: satisfying this want means not satisfying that want. Need has no place in the mainstream microeconomics. Personalist economics makes allowance for the case of zero-opportunity cost because it

---

[1] Danner was most instructive on the role of economic gain in routine market exchange. See pp. 99-114.

recognizes the difference between need and want, addresses need in both microeconomics and macroeconomics, and thereby represents all economics as value-laden.

However, without a limit to the extent of economic gain and its origins, some persons in the exchange process are able to take more than their due while others are left with less. Conventional economics brushes aside the problem of exploitation and victimization with the invisible hand argument. Every economic agent in the pursuit of his/her self-interest serves the good of all through the invisible hand of the market. Introducing justice into economic affairs is unnecessary and threatens the value-free nature of conventional economic science. Personalist economics rejects the invisible hand on grounds that its appeal to magic and rhetoric is no substitute for the call of justice to reason and substance. Personalist economics accepts a value-laden economics as the price for aligning the study of economics more closely with economic reality.

In the workplace, for example, when the baker hires a sales clerk to tend to his/her customers, there is gain for both parties. The baker gets the clerk's labor services that are more useful to him/her than the wages that must be paid, thereby adding to the baker's profits. Without that gain, the baker could not afford to hire the sales clerk. At the same time, the clerk contributes his/her labor services because the wages paid are more useful than the time and effort involved in working. Without that gain – economic rent -- the clerk would not accept the job. As we just observed with the shopper, both the baker and the clerk presumably are guided in their decision-making by the greatest gain available.

In the marketplace, the baker produces more loaves of bread than can be used for his/her own personal consumption, and sells them provided what is gotten (the price paid by the customer) is more useful than what is given up (the cost to produce the bread), thereby adding to the baker's profits. Without that gain, there is no incentive for the baker to produce and sell bread. At the same time, the baker's customer who does not bake bread, or does not make it as well or as inexpensively, buys from the baker because the bread that is gotten is more useful than the money given up. The gain achieved by the consumer -- consumer surplus -- can be saved or applied to buying other things that the customer wants or needs. A bargain is an exchange in which the consumer's gain is greater than initially expected.

When a buyer and a seller have exchanged the same item at the same price time after time, both parties know in advance the gains associated with that exchange and the gains forsaken and therefore act with considerable certainty. However, when a new item is exchanged or at least one of the parties enters the exchange for the first time, the gains properly considered are *expected* gains and there is some uncertainty in that exchange. Considerable certainty applies as well to the exchange between an employer and a long-time employee. On the other hand, when an established employer hires a new worker, or a new business is recruiting its startup work force, uncertainty attends the decision-making.

To sum up, there is an important difference in emphasis in the way personalist economics and mainstream economics define opportunity cost. Mainstream economics defines it in terms of whatever else the decision-maker cannot do or have once his/her decision has been made. Personalist economics defines it as the gain available from whatever else might have been acquired with the money at hand but in the end was forsaken. Personalist economics departs from mainstream economics in two ways. First, personalist economics links opportunity cost to the straightforward language and logic of economic decision-making: what is gotten in exchange is more highly valued than what is given up. Second, personalist economics introduces need into the behavior of economic agents and the possibility of zero opportunity cost. Mainstream economics does not.

Profits flow from two sources because the producer engages in exchange in two markets each yielding its own gain. There is (1) the gain that comes from the producer's buying inputs in the resource market for use in the production process, and (2) the gain that derives from selling the finished goods in the product market. Thus the producer's profits are enhanced in two fundamental ways: by reducing the cost of production and by selling finished products at a higher price.

However, in the case of economic rent and consumer surplus alike, the gain originates in exchange that takes place in a single market. For the worker and the holder of natural resources, economic rent originates in exchange only in the resource market. For the consumer, it is exchange only in the product market that gives rise to consumer surplus. Though the language used in mainstream economics to designate these gains -- profits, economic rent, and consumer surplus -- suggests that they are incidental to the exchange process, the hard reality is that all three gains are absolutely necessary to that process. In their absence, exchange tends to break down.

We can summarize the connections between exchange and economic gain and between the market system and freedom, as follows. No exchange without economic gain, no market system without freedom.

References

Danner, Peter L. 2002. ***The Economic Person: Acting and Analyzing*****, Lanham: Rowman and Littlefield.**

IV. ECONOMIC JUSTICE AND ILL-GOTTEN GAIN

Limits on the amount of gain in the form of profits, consumer surplus, and economic rent are necessary to prevent one party from taking advantage of another and to assure that market exchange serves everyone fairly and effectively. Those limits derive from the duties that economic agents owe one another under the principles of commutative, distributive, and contributive justice.

The *principle of commutative justice* states that buyer and seller in the marketplace and worker and employer in the workplace have two duties that are binding on both parties. First, they are to exchange things of equal value. Second, they are to impose equal burdens on one another. In many such transactions, personal experience informs us as to what equal value means. By equal burden we mean that the burden of the seller is to give up possession of the good or service in question. For the buyer, the burden is to give up possession of the money necessary to buy and take possession of that good or service. For the worker, the burden is performing the work assigned. For the employer, the burden is paying the worker the wage they agreed to.

At first glance, exchanging things of equal value implies that there is no gain involved. On closer examination we see that this is not the case. Exchanging things of equal value means that what is exchanged is of equal *exchange* value, not equal use value. Taken together use value and exchange value result in economic gain whenever use value > exchange value.

When a market is reasonably competitive, exchange value normally does not fluctuate markedly from day to day and is the same or nearly the same for all buyers on the same day. Competition in other words reduces the control that any single buyer or seller has over price, keeps the market price close to the cost of production, and allows a reasonable profit margin but not undue profit. Thus there may be little need for personal restraint. Gain under these circumstances can be represented as follows:

gain is *justified* when use value > exchange value *restrained* by competition.

A problem arises, however, when the market does not impose this restraint, and agents are free to act, more or less, without restraint. Action of this type can occur when the producer fixes the price through a cartel or when the buyer is simply ill-informed about the market price and overvalues the product or service offered for sale. In such cases, the gain of the seller is ill-gotten because it is based on taking advantage of the buyer. Unrestrained action may involve a buyer who has an opportunity to enhance his/her gain when the seller is unaware of the true value of the product or service offered for sale. The principle of commutative justice in all such cases informs both parties that the only justifiable gain is one that does not deprive the other party of the gain that is rightfully his/hers. Thus:

gain is *justified* when use value > exchange value *restrained* by faithful adherence to the principle of commutative justice in a situation where competition alone does not provide the necessary restraint.

Distributive justice defines the duties of the superior to his/her subordinates. Specifically, distributive justice requires the superior to distribute the benefits and burdens among the members of the group under his/her supervision in some generally equal fashion. This does not mean strictly equal because there likely are significant differences among subordinates and it is entirely appropriate to take those differences into account. For example, handicapped employees appropriately may require different parking and restroom accommodations than able-bodied employees.

Distributive justice demands that the superior differentiate among subordinates only when the differences among them are real and substantial and require different arrangements. A superior may allow a single parent to rush home to tend to a sick child when the same permission might not be given to a married worker with a spouse who routinely stays at home to look after the children.

Discrimination occurs when the superior differentiates among subordinates for reasons that are insubstantial. In this regard, false stereotyping may be the device used to rationalize the difference in treatment among subordinates. For example, older workers may be treated differently because they simply have "less upside potential" than younger workers. Women may be treated differently because for them work is of secondary importance in their lives. Favoritism is simply the other side of the coin of discrimination: treating some better than others for reasons that are superficial or based on the false stereotyping of others.

Distributive justice limits ill-gotten gain because the superior assures that what is gotten and what is given up are the same for everyone in the same or similar circumstances. To illustrate, the ill-gotten gain for the employer who pays some workers less than others for the same work is the added profits gotten through discrimination. The ill-gotten gain for the public official who has been bribed to award a contract for a clearly substandard proposal is the money which that official has gotten dishonestly.

Contributive justice lays down the obligation of the member to the group to which that person belongs. Insofar as a person receives benefits from the group, that person has a duty to maintain and support the group. Paying dues -- a duty -- is the usual requirement for the persons joining and remaining active in a membership organization. Failure to pay membership dues typically reduces a person to inactive membership status enjoying fewer benefits of membership as compared to those in good standing.

Contributive justice limits excessive gain because each member gives up (contributes) what is necessary to maintain the group provided what is gotten by that member is the same or similar to what is gotten by the other members of the group. The ill-gotten gain for the

inside trader comes at the expense of persons who sell shares that the inside trader knows are undervalued or who buy shares that the insider knows are overvalued. The ill-gotten gain in industrial spying is the property that rightfully belongs to someone else.

V. JUST PRICE

We turn first to Bernard Dempsey SJ on the just price who grounds his argument initially in Aquinas.

> **"Buying and selling were instituted for the common good of both parties since each needs the product of the other and vice versa … but what was introduced for the common utility ought not to bear harder on one party than on the other, and therefore the contract between them should rest on an equality of thing to thing." [Dempsey, p. 369; quoting Aquinas].**
>
> **The idea contained in this quotation from St. Thomas was called by Father Henry Pesch, S.J. the principle of equivalence,[1] which must prevail in economic activities not only in contracts between individuals, but also in broader relationships. Father von Nell-Breuning gives the same basic thought from Cardinal de Lugo as "a neat formulation of the principle of equivalence. The justice of a contract of purchase and sale is derived from the equality between the contracting parties. And with reference to this equality there must be considered the burdens they naturally impose on each other." [Dempsey, pp. 369-370].**
>
> **From the doctrine on private property as stated,[2] and from the doctrine of the organic nature of society and its functional organization, the doctrine of just price follows as a ready corollary. If the face of the earth remains in a radical sense the patrimony of all men, and if, in their efforts to reduce the face of the earth to their service, men work cooperatively like the highly interdependent organs of a body, then obviously the exchange of what is produced under these circumstances must be made equitably. Justice, according to Ulpian and the whole canonist tradition, requires that we render to each man that which is his to an *equality*. Goods are exchanged in terms of their value but, since the productive process is a social process, the value of a commodity is based not on the estimate of this or that individual but upon its social utility, as expressed in the community estimate of its social value. [Dempsey, pp. 98-99; emphasis in original].**
>
> **The chief difference between scholastic *just price* and classical *natural price* is that the liberals believed their deistic Providence constituted fair markets automatically through the magic of competition, no matter how hard men tried to make them unfair. The guildsmen believed that men were the sons of Adam as well as of God**

---

[1] For the most part, Dempsey refers to this principle as commutative justice.

[2] In brief this is Dempsey's view of the right of private property.

> **Private property is a legitimate and natural institution, founding a true right. The administration of that institution and the exercise of that right cannot, however, justly interfere with the paramount purpose for which the face of the earth was designed, the sustenance of all men. [Dempsey, p. 96].**

> **and that the accomplishment of the designs of Providence required the sedulous application of human reason as well as cooperation with divine grace. [Dempsey, p. 100; emphasis in original].**

Dempsey's Jesuit colleague Thomas Divine adds how the just price is violated in a modern market economy.

> **This concentration [of ownership or control in industry] may take the form of a combination of several competing firms into a single unit by the use of such legal devices as the trust, holding company, interlocking directorate, merger, etc., or it may be brought about by price-control agreements, actual or virtual, such as are found in pools, market-sharing, price leadership, and the substitution for price-competition of competition in the form of advertising, product development, sales promotion, etc. Both these forms of concentration of market control can be detrimental to the public welfare not only by the exploitation of the consumer but by the substitution for price-flexibility of price rigidities that interfere with the automatic regulation that competition affords the economic system. They may violate both commutative[1] and social justice. [Divine, Chapter 31, p. 2].**

References

Dempsey, Bernard W. 1958. *The Functional Economy: The Bases of Economic Organization*, Englewood Cliffs: Prentice-Hall, Inc.

Divine, Thomas F. c1960. *Economic Principles and Social Policy*, unpublished but available at Raynor Memorial Libraries, Marquette University, Milwaukee.

[1] As with many others, Divine uses commutative justice instead of the principle of equivalence.

VI. JUST WAGE

Stephen Worland provides a cogent and convincing argument in defense of the just wage that rests squarely on *Rerum Novarum* and *Quadragesimo Anno*. In the following we shortened Worland's commentary somewhat; the full commentary is available to the interested reader at http://www.firstthings.com/article/2007/01/just-wages-29.

> **According to the original exposition of the "living wage" principle by Pope Leo XIII in *Rerum Novarum* (1891), the worker had been reduced to proletarian status by the onset of the Industrial Revolution. Where previously he had tilled land from which he could eke out at least a modest living, now he had been forced into a situation where he could acquire the means of subsistence "in no other way than by his work and wages." In this situation, his distributive right as a member of the community was reduced to a contractual claim against his employer. But, Leo insisted, each worker, as head of a household, had a right to a wage "sufficient to maintain himself, his wife, and children in reasonable comfort."**
>
> **Pope Leo analyzed the social conditions of nascent industrialization and discerned this previously unrecognized moral principle. His American commentators made the policy inference that the natural right to a living wage provides justification for minimum wage legislation. In 1906, Father John A. Ryan, the "labor priest" who became the New Deal's favorite Catholic theologian, took Pope Leo's principle to mean that "as protector of natural rights the state ought to compel employers to pay a living wage." But plausible as it may have seemed, Fr. Ryan's notion that the right to a living wage called for enactment of a legal minimum was not in fact espoused by Leo XIII, and, what is more important, was clearly bypassed in the subsequent development of the social magisterium.**
>
> **In *Quadragesimo Anno* (1931), Pius XI developed the living wage principle with a rectification of the Church's traditional teaching on natural law and justice, a rectification intended to transcend the kind of hostility to modernity exemplified in Pius IX's *Syllabus of Errors* (1864). "Custom," wrote the medieval expositors, "makes law." In this view, it is the accumulated experience of the community, distilled into social roles, that provides guidance for individual conduct, linking basic moral precepts with day–to–day practice. Codification, legislative enactment, and formal procedures are secondary and derivative. In a stable society, the provenance of custom can be taken for granted.**
>
> **But modern societies, with their widespread social mobility, made rule by tradition and custom much more complicated. Pius XI recognized that while moral principles remained the same, the customs by which they were lived changed as often and as quickly as did society. He therefore identified a new virtue, "social justice," that should guide the evolution of custom.**
>
> **For Aristotle, the just man is required to fulfill contracts, distribute common goods fairly, and obey the law of the land. For Pius XI, the just man also has a first–order moral obligation to contribute to the development of equitable rules and practices in**

his sphere of society. Social justice is a sort of practical wisdom, which, unlike abstract scientific knowledge, is a grasp of truth acquired "by inclination," particularly the inclination to good that operates in the soul of the virtuous individual. Such inclination produces a precious fund of wisdom,[1] which sound social policy draws upon to understand and react to new social situations. The "principle of subsidiarity," often cited as Pius XI's original contribution to the social magisterium, should be seen in this context; the judgment about how to act should be made at the most concrete and practical level possible. Pius drew on such a conception of practical wisdom and the virtue of social justice to develop his predecessor's teaching on the worker's right to a living wage.

Pius adopts the premise of Leo's analysis that with the onset of the industrial revolution the worker is left with "nothing but his labor by which to obtain the necessities of life." This being the case, justice requires that "the wage paid the workingman must be sufficient for the support of himself and his family." However, it is important to note that in developing his teaching on the living wage, Pius XI explicitly acknowledges a fact of life that liberal politicians and trade union apologists love to deny -- "a scale of wages excessively high . . . causes unemployment." A private-sector business firm, unlike a tax–supported government agency or an endowed university, meets its payroll with revenue derived from the sale of products. This being the case, the wage rate must be adapted to market realities.

Evidently, for Pius XI, the achievement of wage justice requires compliance with two different principles. The wage rate must, first, allow the firm to stay in business, and second, provide the worker with income sufficient to support himself and his family. In Michael Naughton's terminology, the "living wage" must also be a "sustainable wage." The unavoidable dilemma is evident: What is to be done when the "sustainable wage" that an employer can afford to pay falls short of the "living wage" the household head needs to support his family? At this point in his analysis, Pius XI could have adopted the proposal made by Ryan; he could have called for passage of a law specifying a legal minimum wage. Instead, he cites the virtue of social justice to explain how the tension between sustainable wage and living wage is to be resolved.

The achievement of wage justice involves a multi–stage process. The worker uses his skill and strength to produce wealth to add value to raw material. By such an act of "specification," so the natural law indicates, he acquires a property right in the commodity produced. However, as an employee using productive resources owned by another, he regularly exchanges his property right in the commodity for a wage claim against his employer… Strict quid pro quo commutative justice requires that the amount of this wage equate with the value of the worker's contribution to production. And microeconomic theory indicates that a wage so proportioned to

[1] Personalist economics refers to this fund of wisdom as personalist capital.

> **productivity (to the "value of the worker's marginal product") would indeed be sustainable.**
>
> **However, according to Pius XI's exposition of the connection between the virtue of social justice and the natural law, the employer's responsibility to the human community does not end when he pays the wage that matches value produced by the worker. For if that sustainable wage falls short of the living wage, the virtue of social justice imposes a further moral obligation on the employer. He must make his best efforts to help the worker increase the value of his work so that his productivity earns him a living wage. He is required, for example, to introduce training programs, apprenticeships, educational fringe benefits, i.e., those measures that enhance labor productivity.**
>
> **And the responsibility does not stop with the employer. The lessons learned in the various workplaces provide the insights and incentive for the development of outside institutions that can support these improvements in workers' conditions. The virtue of social justice requires that all those whose social role bears on the wage relationship—employer, union shop steward, school official—strive to achieve those institutional adjustments that will qualify the worker to earn the living wage.**
>
> **Thus, Pius assumes, when the virtue of social justice has done its work, both on the shop floor and in the matrix of supporting institutions, the worker will find that the value added to product by his productive effort, the wage claim he acquires against his employer, will generate income sufficient to support his family and to provide the resources required for him to fulfill his social role as household head. He will receive a living wage, not as entitlement conferred by the welfare state, but rather as just reward for his productive effort. The living wage doctrine protects both the worker's distributive rights and his personal dignity.**
>
> **……………………………………………………………………………………………**
>
> **By affirming the worker's right to a living wage, Leo XIII (in *Rerum Novarum*) made a precious contribution to the moral self–understanding of modern industrialized society. With his teaching on the virtue of social justice, Pius XI (in *Quadragesimo Anno*) indicated that it is, in major part, private sector initiative working steadily for the progressive reform of the rules and procedures guiding common action that is to bring such a right to realization. [Worland, pp. 14-17].**

It follows that the federal *earned* income tax credit, which for low- and medium-income tax filers results in a tax refund whenever the credit is greater than the taxes owed, is not only a misnomer but also a poor substitute for greater earnings that can be achieved through improved productivity.

References

Worland, Stephen T. 2001. "Just Wages," *First Things*, February.

VII. SOCIAL JUSTICE[1]

Social justice is a concept used widely but with different meanings for different users. Fifty years ago Raymond Jancauskas [p. 34] observed that the concept is "vague and ill-defined." Thirty years later William Waters [p. 113] added that it is "a very helpful but ambiguous term." Twenty years after Waters' comment, Rupert Ederer [p. 114] stated that social justice has been reduced to "simply a slogan."

In addition to the different meanings applied to the term, two other sources of ambiguity exist. First, social justice is referred to under at least three other labels: constructive justice [Waters, p. 95], legal justice [Dempsey, p. 165; Waters, p. 113], and general justice [McKee, p. 3; Waters, p. 113]. Second, some ambiguity originates in careless scholarly work. Two examples illustrate this point.

In the first instance, Pius XI in his 1937 encyclical *Divini Redemptoris* demonstrates the connection between social justice and the common good. The Vatican website renders that connection in the English version of the encyclical as follows. "Now it is of the very essence of social justice to demand *for* each individual all that is necessary for the common good." [Pius XI, §51; emphasis added].

However, carefully translating the Latin version from the same website into English produces the following. "Now it is of the very essence of social justice to demand *from* each individual all that is necessary for the common good"[2] (emphasis added). This latter rendering is found in *The Encyclicals of a Century* [p. 314] where the full text and footnotes of *Divini Redemptoris* are printed and twice in Bernard Dempsey's influential *The Functional Economy* [pp. 220, 372]. Clearly, "for" indicates a right of the individual whereas "from" signifies a duty.

In the second instance, Dempsey attributes the latter rendering correctly to *Divini Redemptoris* in one place but incorrectly to *Quadragesimo Anno* in another. [Dempsey, pp. 372, 220].[3] Further, Waters [p. 113] in citing Arnold McKee refers to social justice "in the broad sense" and "in the narrow sense" and recommends McKee to the reader for "an excellent introduction to the subject." McKee [pp. 2-3], however, refers to justice -- not

---

[1] The following commentary on social justice is excerpted from O'Boyle.

[2] "Atqui socialis justitiae est id omne *ab* singulis exigere, quod ad commune bonum necessarium sit."
[Pius XI, §51; Latin text; emphasis added]. The author is grateful to John Czyzynski, SCJ, for help in translating the Latin text correctly into English.

[3] Perhaps what accounts for this lapse is that Dempsey on the same page states that in the language employed in *Quadragesimo Anno* [§57, §58] Pius XI says in effect that "a practical application of the virtue of social justice … is equated with the common good." [Dempsey, p. 202].

social justice -- "in a narrow sense" and "a wide sense."

The line between social justice and social charity is confused and adds to the ambiguity when solidarity is substituted for social charity. Further documenting the various sources of confusion and ambiguity does nothing more than add to these problems. A clear understanding of the three principles of economic justice – commutative, distributive, and contributive -- helps remove the ambiguity associated with social justice because, as we intend to demonstrate, all three are necessary for practicing social justice and attaining the common good in that they promote the trust required of human beings in the conduct of everyday economic activities.[1] We will then further clarify charity, social charity and solidarity.

Social Justice and the Three Principles of Economic Justice

The emphasis in contributive justice on the duty of the member to the group and the duty of the person under social justice to contribute to the common good suggest that social justice and contributive justice are identical. Dempsey [pp. 370, 372] holds this view and asserts that Heinrich Pesch does too. And apparently, Benedict XVI [§35] holds this view as well.

However, before addressing social justice further, we insist that contributive justice, while it can be described and examined separately from commutative and distributive justice, cannot be separated in the actions of a truly just person. In economic affairs a person cannot serve justice without being faithful to all three at once.

Recall for a moment the language of *Divini Redemptoris*. "Now it is of the very essence of social justice to demand *from* each individual all that is necessary for the common good." [Pius XI, §51; English text corrected, emphasis added]. As stated previously, if a person has a duty to contribute all that is necessary for the common good he also has a right to whatever goods are necessary to live in common. Trust is one of the goods necessary to live in common and trust is maintained only through the faithful practice of commutative justice and distributive justice in addition to contributive justice. Benedict XVI [§35] states unequivocally that today trust "has ceased to exist" in the market economy.

Simply put, commutative justice, distributive justice, and contributive justice are a package deal. Practicing social justice means practicing all three. Thus, at all times and in all places, social justice requires precisely this: all that is necessary for the common good.

Living in common means living in a complex network of intertwined communities: family, workplace, neighborhood, church, civic organization, trade association, city, province,

---

[1] The reader is advised at this point to review the preceding sections on justice and economic gain.

nation-state, all nations. Each one brings different duties and different rights, and those duties and rights vary depending on the condition of the person in areas such as health and economic means. Moreover, the duties and rights are not of the same significance. To illustrate, relationships of care within a family are more significant than the duties and rights of membership in a civic organization.

Acknowledging our participation in these networks illuminates two points. First, a person has a duty to contribute to whatever communities he or she belongs to, say family, workplace, and nation-state, and a corresponding right to whatever goods are produced in common by those communities.

Second, more powerful communities in the social order have a duty according to the principle of subsidiarity not to interfere in the production of less powerful communities and to help those less powerful communities produce more effectively. Thus the goods produced in common should be produced by the smallest community possible in order to position production as close as possible to the family and its members so as to better assure that the goods produced in common are available to meet the needs of human beings as persons and to contribute to their proper development.

In this scheme a strong preference for action is taken first by private organizations and then by public agencies but only after those agencies have offered assistance and those private organizations still are not operating effectively. Put differently, the common good does not always require goods produced by public agencies.

For this kind of decentralized, bottom-up social order to produce effectively, trust is necessary across a network of communities that as we already observed requires the faithful practice of commutative, distributive, and contributive justice, the three constituent parts of social justice. Social justice and subsidiarity work together toward the common good that includes the production of the goods necessary to live in common as well as the moral good through which the dignity of the human person is respected.

An example helps demonstrate the connection between social justice and subsidiarity. If cities in general are capable of dealing with the sanitation needs of the community, the persons living in those cities have a duty to pay the taxes or fees to support municipal sanitation systems and a right to access those systems. The provincial or federal government has no justification for taking over municipal sanitation systems provided the cities are operating those systems effectively, though the provincial or federal government might be of assistance by offering grants to upgrade wastewater treatment facilities. In this example, the common good is served by the production of public goods at the local level.

Needs, Charity, Social Charity, Solidarity

Common needs are needs that are "common to all members of the community." [Dempsey, pp. 272-273; emphasis added]. Accordingly, the common good involves providing for those common needs. Citing *Gaudium et Spes*, Benedict in *Caritas in Veritate* puts it this way: "Beside the good of the individual, there is a good that is linked to living in society: the common good. It is the good of 'all of us,' made up of individuals, families and intermediate groups who together constitute society." [Benedict, §7; quote marks in original].

Even so, not all human needs are common needs. Since each human being is unique, each has needs and wants that strictly speaking are personal and satisfied by specific goods. (We will shortly take up the difference between needs and wants.) Dempsey [p. 272] calls these goods elementary goods. As a personalist espousing an economics in which the economic agent is represented as a person, we prefer to call them personal goods.

Accepting subsidiarity as a governing organizational principle, it follows that the common good is served first by private goods and then by public goods as necessary. By demanding "all that is necessary for the common good," social justice is served at times by public goods but preferentially by private goods.

Two key problems remain. What should be done when the economic system does not produce all that is necessary for the common good? What should be done when it does not produce all of the necessary personal goods? The first is a problem of production, the second a problem of distribution.

The production problem requires an ongoing public discourse on the very structure of our economic institutions, especially the role of private enterprises vs. public agencies in the process of production. The solution might lie in public agencies offering private enterprises assistance to produce the goods necessary to serve the common good. Or, it might involve public agencies taking on a more aggressive regulatory role. It might extend to direct government control of private enterprises, ownership of those enterprises or both. Alternatively, it could involve deregulation and privatization in order to free private enterprises from a government sector that has grown too large to be effective. Subsidiarity can be helpful in this discourse. Even so, the discourse can run on for years as it has in the United States regarding health care.

In an economy such as the United States that produces goods of all kinds in abundance, an insufficiency of personal goods is not a production problem, nor is it a social justice problem. It is instead a distribution problem, a problem of insufficiency or poverty. As so ably demonstrated by the likes of Blessed Mother Teresa and her community of nuns, relieving this insufficiency often is prompted by the theological virtue of charity "by which we love God above all things for his own sake, and our neighbor as ourselves for the love of God." [Catechism, §822]. At the same time, the natural virtue of caring infused with the

conviction that every human being is precious motivates many others to alleviate the very same insufficiency. The use of the term social charity creates additional confusion because that term is ambiguous. Does it refer to the theological virtue of charity or the natural virtue of caring? We take up that question after the following two comments on poverty that may help us sort through some of the ambiguity regarding social justice.

As noted previously, it is important to differentiate human needs from human wants. Poverty is an issue of unmet human needs such as food and clothing. It is not a matter of unsatisfied human wants such as vacations and luxury cars.

Subsidiarity plays a role here just as we observed in the case of social justice. Intervention by private organizations such as faith-based neighborhood groups that provide assistance to persons and families with unmet personal needs is preferred provided if they are positioned closer to those seeking assistance *and* therefore are better able to differentiate between an unmet need and an unsatisfied want and to identify a false claim for assistance.

We turn next to the meaning of solidarity and how it relates to charity. In *Rerum Novarum*, Pope Leo XIII [§14] referred to the family as "part of the commonwealth" and made clear that Christians are expected to help any family in need as "a duty, not of justice (save in extreme cases), but of Christian charity -- a duty not enforced by human law." [Leo XIII, §22]. Here the Holy Father clearly means the theological virtue.

According to Ederer [p. 107], the term "social charity" originated in section 88 of *Quadragesimo Anno*. By this, Pope Pius XI meant neither the theological virtue nor caring. Rather, the Pontiff's intent was to identify it with solidarity. To underscore this important point, Ederer [p. 114] asserts that the concept of solidarity was developed at length by Pope John Paul II in *Sollicitudo Rei Socialis* and identified with social charity in *Centesimus Annus.*

In *Sollicitudo Rei Socialis* John Paul says that there is a "growing awareness of interdependence among individuals and nations," a transformation that is

> **acquiring a moral connotation . . . . When interdependence becomes recognized in this way, the correlative response as a moral and social attitude, as a "virtue," is solidarity. This then is not a feeling of vague compassion or shallow distress at the misfortunes of so many people, both near and far. On the contrary, it is a firm and persevering determination to commit oneself to the common good; that is to say to the good of all and of each individual, because we are all really responsible for all. This determination is based on the solid conviction that what is hindering full development is [the] desire for profit and [the] thirst for power . . . [John Paul 1987, §38].**

And shortly thereafter, he continues:

> **it has been possible to identify many points of contact between solidarity and charity, which is the distinguishing mark of Christ's disciples. In the light of faith, solidarity seeks to go beyond itself, to take on the specifically Christian dimension of total gratuity, forgiveness and reconciliation. One's neighbor is then not only a human being with his or her own rights and a fundamental equality with everyone else, but becomes the living image of God the Father, redeemed by the blood of Jesus Christ and placed under the permanent action of the Holy Spirit. One's neighbor must therefore be loved, even if an enemy, with the same love with which the Lord loves him or her; and for that person's sake one must be ready for sacrifice, even the ultimate one: to lay down one's life for the brethren. [John Paul 1987, §40].**

Support for Ederer's claims are found in *Centesimus Annus*.

> **In this way what we nowadays call the principle of solidarity, the validity of which both in the internal order of each nation and in the international order I have discussed in the Encyclical *Sollicitudo Rei Socialis*, is clearly seen to be one of the fundamental principles of the Christian view of social and political organization. This principle is frequently stated by Pope Leo XIII, who uses the term "friendship," a concept already found in Greek philosophy. Pope Pius XI refers to it with the equally meaningful term "social charity." Pope Paul VI, expanding the concept to cover the many modern aspects of the social question, speaks of a "civilization of love." [John Paul 1991, §10].**

In *Caritas in Veritate*, Benedict [§38] employs "solidarity" frequently and attributes it to John Paul. He does not use the term "social charity." He uses "social justice" only once by which he apparently and unfortunately, for purposes of the present argument, means contributive justice. [Benedict, §35]. Even so, Benedict offers the following insight to clarify the difference between justice and solidarity both of which are directed toward the common good.

> **In the global era, economic activity cannot prescind from gratuitousness, which fosters and disseminates solidarity and responsibility for justice and the common good among different economic players. It is clearly a specific and profound form of economic democracy. Solidarity is first and foremost a sense of responsibility on the part of everyone with regard to everyone, and it cannot therefore be merely delegated to the State. While in the past it was possible to argue that justice had to come first and gratuitousness could follow afterwards, as a complement, today it is clear that without gratuitousness, there can be no justice in the first place. What is needed, therefore, is a market that permits the free operations, in conditions of equality opportunity, of enterprises in pursuit of different institutional ends. Alongside profit-oriented private enterprise and the various types of public enterprise, there must be room for commercial entities based on mutualist principles and pursuing social ends to take root and express themselves. It is from their reciprocal encounter in the marketplace that one may expect hybrid forms of commercial behaviour to emerge, and hence an attentiveness to ways of *civilizing the***

> ***econom*y. Charity in truth, in this case, requires that shape and structure be given to those types of economic initiative which, without rejecting profit, aim at a higher goal than the mere logic of the exchange of equivalents, of profit as an end in itself. [Benedict, §38; emphasis added].[1]**

Benedict also calls attention to the close linkage between subsidiarity and solidarity: "the former without the latter gives way to social privatism, while the latter without the former gives way to paternalist social assistance that is demeaning to those in need." [Benedict, §58].

Three general comments regarding profits and Catholic social thought must be added here. First, a commercial enterprise operating in a market system requires profits as a condition of survival. Nothing in Catholic social thought can or should force the owners of a failed enterprise to continue operating at a loss.

Second, profits earned honestly through faithful compliance with the demands of the three principles of economic justice are the "stuff" that makes gratuitousness possible. Catholic social thought can and should remind Catholics and others often and with conviction that profits are not an end in themselves, that they are to be freely shared with others.

Third, Catholic social thought can and should boldly inform economics that its insistence on teaching the profit maximization principle[2] and that profits are the sole objective of a commercial enterprise in a market system are directly at odds with gratuitousness that is necessary for justice, solidarity, and the common good.

Final Remarks

We began our discussion of social justice with the purpose of reducing the ambiguity surrounding that widely-used concept. We have argued that practicing social justice means practicing all three types of justice relevant to economic affairs: commutative justice, distributive justice, and contributive justice. All three are necessary for the common good, because all three foster the trust required for human beings to carry out their everyday economic activities in common.

---

[1] **Benedict adds "international solidarity," "social solidarity," and "welfare solidarity" (see § 60) without clarifying how those terms differ from "solidarity" as defined in this section. The difference seems to somehow relate to the principle of subsidiarity. It is also important to note in this passage that, in the early 1900s, for example, the German Jesuit economist Heinrich Pesch identified the two as complements: "charity must complement justice so that one person will help the other, even when he is not compelled to do so by any kind of legal obligation." See Heinrich Pesch, p. 177.**

[2] **The profit maximization principle asserts that profits of the typical firm are maximized at the unique combination of price and output where the additional cost of producing one more unit of output is equal to the added revenue from selling that unit.**

Living in common means living in a network of communities. Subsidiarity helps us decide where in that network responsibility for production should be located. The goods produced in common should be produced by the smallest community in the network in order to locate production as close as possible to the family and its members; this assures that such goods are available to meet the needs of human beings as persons and to contribute to their proper development.

The principle of subsidiarity requires that preferential action be taken first by private organizations and then by public agencies but only after public agencies have offered assistance and only if private organizations still are not operating effectively. Thus, the common good does not always require goods produced by public agencies.

The problem with justice is that it results in a condition where no one owes anything to anyone else, a condition that James Schall [p. 412] describes as an "isolated hell." John Paul puts it this way: "justice, if separated from merciful love, becomes cold and cutting." [John Paul 1998, p. 1]. In other words, the faithful practice of social justice coupled with subsidiarity removes the sources of dysfunction that prevent human beings from living successfully in community. However, social justice and subsidiarity do not by themselves establish a functional community.

Christians practice the theological virtue of charity to address the burdens of persons with unmet personal needs. If those needs are not addressed, the poor are marginalized and effectively excluded from living in common. And where Christians practice charity, persons of good will may practice the natural virtue of caring.

Benedict and John Paul warn that more is needed to preserve the dignity of the human person than a form of social justice enlightened by subsidiarity and the theological virtue of charity focused narrowly on one's immediate neighbors. They are not sufficient for a truly functional community that exists in an increasingly interdependent "economic, cultural, political, and religious" order. Rather, the full development of the human person depends on solidarity -- "a firm and persevering determination to commit oneself to the common good . . . the good of all and of each individual." [John Paul 1987, §38].

Benedict [§38] says that without the gratuitousness that makes solidarity possible, "there can be no justice in the first place." We conclude that the functional community depends on charity or caring to meet the needs of the poor, gratuitousness that makes possible social justice that combines commutative, distributive, and contributive justice and removes human barriers to community when coupled with subsidiarity, and finally, solidarity -- a deep and abiding personal commitment to the common good.

References

Benedict XVI 2009. *Caritas in Veritate*, available at http://vatican.va/holy_father/benedict_xvi/encyclicals/documents/hf_ben-xvi_enc_20090629_caritas-in-veritate_en.html (accessed July8, 2009).

***Catechism of the Catholic Church* 1994. San Francisco: Ignatius Press.**

Dempsey, Bernard 1958. *The Functional Economy: The Bases of Economic Organization,* Englewood-Cliffs: Prentice-Hall.

Ederer, Rupert 2008. "A Principle for Economics," *The Catholic Social Science Review,* Volume 13.

***Encyclicals of a Century* 1942. Derby: Daughters of St. Paul, Apostolate of the Press.**

Jancauskas, Raymond 1959. "The Concept of Social Justice: Some Current Applications," *Review of Social Economy,* Volume 17.

John Paul II 1991. *Centesimus Annus*, available at http://vatican.va/holy_father/john_paul_ii/encyclicals/documents/hf_jp-ii_enc_01051991_centesimus-annus_en.html (accessed July 10, 2009).

John Paul II 1998. "From the Justice of Each Comes Peace for All," available at http://vatican.va/holy_father/john_paul_ii/messages/peace/docoments/hf_jp-ii_mes_08121997_xxxi-world-day-of-peace_en.html (accessed July 10, 2009).

John Paul II 1987. *Sollicitudo Rei Socialis*, available at http://vatican.va/holy_father/john_paul_ii/encyclicals/documents/hf_jp-ii_enc_30121987_sollicitudo-rei-socialis_en.html (accessed July 10, 2009).

Leo XIII 1891. *Rerum Novarum,* available at http://vatican.va/holy_father/leo_xiii/encyclicals/documents/hf_l-xiii_enc_15051891_rerum-novarum_en.html (accessed July 9, 2009).

McKee, Arnold 1981. "What is "Distributive Justice?" *Review of Social Economy,* Volume 39.

O'Boyle, Edward J. 2011. "Social Justice: Addressing the Ambiguity," *Logos: A Journal of Catholic Thought and Culture,* Volume 14, Number 2, Spring.

Pesch, Heinrich 1998. *Heinrich Pesch on Solidarist Economics: Excerpts from the Lehrbuch der Nationalökonomie,* trans. Rupert J. Ederer, Lanham: University Press of America.

Pius XI 1937. *Divini Redemptoris*, English text, available at http://vatican.va/holy_father/pius_xi/encyclicals/documents/hf_pxi_enc_19031937_divini- redemptoris_en.html (June 26, 2009).

Pius XI 1937. *Divini Redemptoris*, Latin text, available at http://vatican.va/holy_father/pius_xi/encyclicals/documents/hf_p-xi_enc_19031937_divini-redemptoris_lt.html (June 30, 2009).

Schall, James 2004. "Justice: The Most Terrible of the Virtues," *Journal of Markets and Morality*, Volume 7.

Waters, William 1989. "Evolution of Social Economics in America," in *Social Economics: Retrospect and Prospect*, ed. Mark A. Lutz, Boston: Kluwer Academic Publishers.

VIII. PRIVATE PROPERTY[1]

Property has a social function in that the property holder is a social being, joined together with others in a network of communities such as family, neighborhood, place of worship, workplace. For Catholics that community is called the Body of Christ. At the same time, private property has an individual function in that the person holding that property is an individual human being, unique and apart from all other human beings. Thus the owner of private property is accountable for the manner in which the goods produced by means of that property are held for his/her own use or released for the use of others.

The social function of private property means that ownership demands stewardship. Just as a conventional mortgage binds the homeowner to repay the financial institution that made ownership of that home possible, a social mortgage obligates the owner of private property to give back to the community so that those with no private property holdings have access to the same basic services such as health care, education, transportation, police and fire protection that helped make possible the personal development of that property owner. *Homo economicus* of the libertarian persuasion recognizes the duty in accepting a conventional mortgage, but not the duty in a social mortgage. The *acting person* of the personalist persuasion knowledges both.

Writing more than 50 years ago, Thomas Divine supplies three arguments in defense of the individual function of private property and three others for its social function. Following Aquinas and fellow Jesuit Duff, Divine asserts that the institution of private property provides for the *needs of society* – the social function -- through the greater productivity of private property holders, the enhanced order characteristic of a society in which property is managed privately, and the greater peace and harmony that derives from the contentedness of private owners. Private property provisions the *needs of the individual* – the individual function -- by endowing the property holder with economic independence, making the holder more secure, and promoting creativity and personal development. The *Compendium of the Social Doctrine of the Church* contains no reference to these Thomistic arguments in defense of private property (see *Compendium*, p. 282).

Drawing on Aquinas, Divine argues that there two aspects to the common use of private property.

> **In the first place it means that the owner of private property must be willing to share his wealth with others in time of need. For the right to the necessities of life would take precedence over the right to conveniences or luxuries. To quote again from Aquinas: "If the need be so urgent and manifest that it must be remedied by whatever means are at hand …, then it is lawful for a man to satisfy his need by taking either openly or secretly another's property; and in so doing he is not guilty of theft or robbery in the proper sense." That he also considers this community of**

[1] The following commentary on property is excerpted from O'Boyle.

> **use to extend beyond mere cases of dire need is clear from his statement in the seventh book, lesson eight, of the Commentary on the Politics: "Goods should be the property of individuals as far as their ownership and management is considered, but should be common in their use as through the act of liberality and friendship." Those who can afford to do so are expected to contribute to a worthy cause. [Divine, Chapter 27].**

Thus two virtues -- friendship and liberality -- govern the *use* of private property as opposed to its *ownership* and *management*. [Divine, Chapter 27]. Fellow Jesuit economist and contemporary Bernard Dempsey concurs with Divine on the three arguments in defense of private property (see Dempsey, pp. 170-175) and drawing upon Aristotle's *Ethics* offers a definition of the virtue of liberality that moderates between avarice and prodigality: "the virtue by which we make good use of all those external goods which are granted us for our sustenance." [Dempsey, p. 180].

Dempsey puts the issue of the social function of property in broader but simpler terms.

> **The error of modern times in not the advocacy of "communism." "Common use" is an ancient and correct idea. The modern error is the belief that common use is attained only through state action. [Dempsey, p. 183].**

Social Mortgage

Based upon and justified by the Church's principle that "God intended the earth with everything contained in it for the use of all human beings and peoples" [*Gaudium et Spes*, §69], John Paul II in *Sollicitudo Rei Socialis* (hereafter *SRS*) argues that private property is not exclusively private in nature, that it has a social function. Employing language that applies to residential property sales in which the buyer borrows some of the funds necessary to purchase the property and acquires the title, John Paul asserts in *SRS* that "private property … is under a 'social mortgage'." [John Paul 1987, §42].

In *SRS* John Paul identifies two sources for his claim that "private property … is under a social 'mortgage'." The first is his address at the Third General Conference of the Latin American Episcopate in Puebla, Mexico, on January 28, 1979.

> **[It is] when the growing wealth of a few parallels the growing poverty of the masses ... that the Church's teaching, *according to which all private property involves a social obligation*, acquires an urgent character. [John Paul 1979a, §III.4; emphasis added].**

Notice that in this address he uses social obligation, not social mortgage, and asserts that the "Church's teaching … acquires an urgent character" due to the widening gap between the wealth of the few and the poverty of the many. It certainly is possible that to John Paul social mortgage and social obligation are synonyms. It is possible too that he used social mortgage in *SRS,* instead of social obligation, to underscore his sense of urgency in this matter.

We are inclined to think that he intended to use them in the second sense because in the very same section of the encyclical (see *SRS,* §42) where he uses social mortgage he calls attention to the preferential option for the poor and to the growing gap between the rich and poor *even in developing countries* where property owners have the means to comply with this duty. Such an interpretation is entirely consistent with the virtue of liberality that Dempsey asserts informs us that the proper end of the use of external goods is the sustenance of men. [Dempsey, p. 180]. We argue, therefore, that in *SRS* John Paul not only calls attention to the preferential option for the poor but constructs the meaning of social mortgage chiefly in terms of that option. Because poverty is a normative concept, it follows that social mortgage is a normative concept too. Put differently, in *SRS* we construe John Paul to mean that the end intended is the provision of sustenance first and foremost to the many throughout the world who are poor and social mortgage conceptually supports that end.

The second source is his ad limina address to Polish bishops on December 17, 1987. A third appears one day later in *L'Osservatore Romano* but is simply a publication of his ad limina address. Both sources, along with the ad limina address in *L'Osservatore Romano,* are footnoted in *SRS* immediately following social mortgage.

John Paul's assertion that private property is under a social mortgage raises two elemental questions. First, why is the principle of private property subordinated to the principle of the universal destination of the goods of the world? Second, what kinds and amounts of social mortgage payments or other transfers are sufficient to satisfy the demands of the social function of private property?

To address these questions, it is necessary to differentiate private ownership of property from how that property is used as John Paul suggests in *SRS*.

> **… the *option* or *love of preference* for the poor … is an option, or a *special form* of primacy in the exercise of Christian charity, to which the whole tradition of the Church bears witness. It affects the life of each Christian inasmuch as he or she seeks to imitate the life of Christ, but it applies equally to our social *responsibilities* and hence to our manner of living, and to the logical decisions to be made concerning the ownership and use of goods. [John Paul 1987, §42; emphasis in original].**

The principle of the universal destination of the goods of the world addresses the issue of the *use* of the goods of the world. The principle of private property deals with *ownership*.

Regarding the first question, the principle of private property, which states that a person has a right to what he creates with his own hands, is not an absolute principle because, as John Paul argues, God created the universe for the benefit of all humankind. The goods produced through the ownership of private property are the means by which human material need is met and for that reason alone private property is subordinate to the universal destination of the goods of the world.

Further, humans who do not own private property are thereby limited in their access to the goods produced by that property and if all human beings truly are created equal how can they claim equality if they are denied access to all that they need to survive as humans? In other words, private property ownership is a lower-order principle and therefore subordinate to the use of that property.

Two extreme types of economic systems are to be avoided. (1) A market economy that is based entirely on private property in which all goods are produced and held by one person who shares none of them. Everyone else is left to fend for themselves. The system collapses from nearly universal unmet need in the midst of surplus production or underutilized production capacity. (2) A command economy that is based exclusively on public property in which goods are produced by some and are shared with everyone on the basis of need. The economy collapses from unmet need due to an insufficient incentive to produce.

In both instances, the problem is production: too much production that is not shared resulting in unmet need or too little leading to the same outcome. In *SRS*, John Paul agrees to the first provided property is under social mortgage: those without property, those who are needy, must not be left to fend for themselves. The universal destination of the goods of the world demands nothing less.

As to the second question about the kinds and amounts of social mortgage payments or other transfers that satisfy the demands of the social function of private property, there are two basic forms: private and public. Examples abound. One very common private arrangement is the business enterprise that employs persons who have no private property of their own. The employees share in the goods produced in that enterprise through the wages paid by the owner of that property. A second private form is the voluntary transfer of funds generated from production at private enterprises to organizations that provide services for those in need either by those enterprises acting individually or collectively through such community-based appeals as United Way. A third is through enterprise-based plans that provide employees an opportunity to acquire ownership in the enterprise. A fourth, and very common form of private arrangement, is the direct transfer from one person to another of goods or the money to buy the needed goods.

Examples of public arrangements that qualify as social mortgage payments include taxation, regulation, mandates, patents, and eminent domain. Taxation transfers some of the proceeds from the ownership of private property to public use to provide for such public services as police and fire protection, transportation, and education. Regulation restricts the ways in which a private property owner may use his/her holdings by setting limits, for example, on hazardous emissions into the environment and through zoning ordinances that set limits on the specific activities -- residential, commercial, industrial -- that are acceptable in a given geographic location.

A public mandate such as a minimum wage or health insurance coverage for workers forces the private property owner to transfer some of the proceeds from production

originating in private property to needy others who do not own that property. The protection afforded by a patent allows the holder of that patent time to recoup the cost of developing the patented item in a market that must respect that property right. However, when protection of that intellectual property expires, other companies are free to manufacture and sell a comparable item that has the effect of cutting away some of the excess profits involved and thereby making it available to the public at a lower price.

Eminent domain is an extreme form of public transfer in that a public body actually seizes private property on the basis of its claim that the property has a social function that completely overrides its private function. In return, the owner is owed a public payment that approximates the fair market value of the property

Whether public or private in nature, social mortgage transfers are justified only as a means by which individual or collective need is addressed.

In the end social mortgage is grounded in social justice as set down by Pius XI in his 1937 encyclical *Divini Redemptoris*.

> **Now it is of the very essence of social justice to demand *from* each individual all that is necessary for the common good. [Pius XI, § 51.Latin text translated into English; emphasis added].**

Norms That Explain What is Owed Under Social Mortgage

Because what is owed to another depends very much on how one defines and measures that obligation, social mortgage as with all contingent being is constituted of two norms, one positive, the other negative. The positive norm functions in the actuating mode and explains how much of the goods produced by owners are to be shared with others. The negative norm operates in the limiting mode and explains why no more than that must be shared.

The principal *positive* norm is the material need that humans are not able to meet acting alone or, simply, unmet human material need. That need may be defined in absolute or relative terms. An absolute income standard addresses the following question: How much income does an individual/family need to purchase the goods and services required to maintain a minimal standard of living? A relative income standard addresses this question: How much income does this individual/family have relative to the income of others?

The chief *negative* norm is the ability of private property holders to meet that need. Following the principle of subsidiarity, unmet need is to be addressed preferentially through private action because private persons and groups in general are closer to the parties requesting assistance and therefore better able to detect false claims of unmet need and to rank authentic unmet need by its scope and intensity.

Regarding the positive norm as to how much must be shared with others under social mortgage, at minimum it must be sufficient to address basic human needs. This norm, we are convinced, must be constructed to incorporate *both* an absolute standard of need and a relative standard because human beings are at once individual and social beings, with the absolute standard reflecting human individuality and the relative standard human sociality.

To simplify, basic need clearly (a) is unmet when the income of the party seeking assistance is below both standards, (b) is met when income is above both standards, and (c) is marginally unmet when income is below one of the standards and above the other. Due to differences in the cost of living, the thresholds that express those standards in measureable form will vary from place to place and one time period to another.

We recommend incorporating in this norm the official poverty standard for the United States because it has been in use for 50 years, has achieved widespread acceptance, and therefore is socially significant.

The negative norm that explains why no more than the goods that meet basic human material need are to be shared by property owners under social mortgage is problematical. In a poor country, the overall level of production from private property may be so small as to make earning a living difficult even for property holders. What is shared is widespread impoverishment. In a wealthy country, however, the level of production from private property may be so substantial as to make possible a level of assistance well beyond basic human material need.

The question then is how much above that basic-needs threshold is owed under social mortgage? The answer lies in the conscience of the property holder because if as a result of government intervention more than the goods required to meet basic need is demanded of the holders of that property, those holders may respond by reducing production making it more difficult to reach that threshold of support. Government action in other words may be self-defeating.

Better to leave that decision to one's own conscience provided it is properly informed to avoid the crass materialism to which John Paul calls our attention in his warning that "the more one possesses the more one wants." [John Paul 1987, §28]. By having and wanting more, the holder of private property puts his/her development as a person at risk of becoming a genuine *homo economicus,* a rational, utility-maximizing human driven by an acquisitive desire.

The properly informed conscience could lead to strictly private action either individually or collectively or to public action. Here again preference is given to private action as against public action on grounds that being located closer to the parties claiming assistance, private action likely is better informed as to true extent of human material need.

References

Dempsey, Bernard W. 1958. *The Functional Economy: The Bases of Economic Organization,* Englewood Cliffs: Prentice-Hall.

Divine, Thomas c1960. "Private Property: Its Ownership and Use," Chapter 27 in his *Economic Principles and Social Policy*, unpublished, Marquette University, Raynor Memorial Library, Milwaukee.

***Gaudium et Spes* 1965. Pastoral Constitution on the Church in the Modern World, December 7, available at http://www.vatican.va/archive/hist_councils/ii_vatican_council/documents/vat-ii_cons_19651207_gaudium-et-spes_en.html (accessed June 8, 2011).**

John Paul II 1979. *Address to the Third General Conference of the Latin American Episcopate,* Puebla, Mexico, January 28, available at http://www.vatican.va/holy_father/john_paul_ii/speeches/1979/january... (accessed April 10, 2012).

John Paul II 1987. *Ad Limina Address to a Group of Polish Bishops*, Rome, December 17, available at http://www.vatican.va/holy_father/john_paul_ii/speeches/1987/december/documents/hf_jp-ii_spe_19871217_polonia-ad-limi ... (accessed April 18, 2012).

John Paul II 1987. *Sollicitudo Rei Socialis*, December 30, available at http://www.vatican.va/holy_father/john_paul_ii/encyclicals/documents/hf_jp-ii_enc_30121987_sollicitudo-rei-socialis_en.html (accessed April 17, 2012).

O'Boyle, Edward. "John Paul on Social Mortgage: Origins, Questions, Norms." *Logos,* forthcoming in 2014.

Pius XI 1937. *Divini Redemptoris*, Latin text, http://vatican.va/holy_father/pius_xi/encyclicals/documents/hf_p-xi_enc_19031937 _ divini-redemptoris_lt.html (accessed June 30, 2009).

Pontifical Council for Justice and Peace 2004. *Compendium of the Social Doctrine of the Church,* Libreria EditriceVaticana.

IX. THE *THIRD* WAY

The conventional wisdom regarding decision-making in economic affairs is that there are only two ways: the individual acting alone and the state acting collectively. Efforts to identify a *third way*, which have occupied some Catholic social economists over the years, have been largely abandoned. We are convinced, however, that there truly is a *third way* as indicated most effectively by Joseph Becker more than 60 years ago.

> **Society makes *three* major choices in allocating functions to its members: it chooses between the individual and the group, between the private and the public group, and between more and less democracy within groups. In each instance the principle of subsidiarity is a proper guide to the correct choice because the members of human society are persons, with the perfections and imperfections of persons. [Becker, p. 8; emphasis added].**

Becker adds that subsidiarity implies that "decision making should be shared as widely as possible" and that in political affairs "maximum democracy means full and direct participation by every member in every decision the group makes." [Becker, pp. 4-5].

Years later William Waters found it necessary to underscore the *third way* because even prominent Catholic social economists were losing sight of it.

> **[Catholic] principles *dictate* a structure or preferred model, negatively if not positively. For example, market liberalism or *laissez-faire*, which assumes automaticity, is excluded by the principles; so is centrally planned socialism – subsidiarity does not allow it. By the time logic expunges most economic systems, one is left with an economy of group decision making, a solidarist one. [Waters 1993, p. 34; emphasis in original].**

Though it constrains economic freedom, the *third way* -- private group decision-making – limits the need for the state to intervene in economic affairs thereby protecting the individual from an even greater loss of economic freedom.

These three ways to organize economic affairs are known as capitalism, socialism, and solidarism.[1] In addition to Becker and Waters, supporters of solidarism or a system of intermediary decision-making bodies include Heinrich Pesch, Joseph Schumpeter, Goetz Briefs, Peter Danner, Rupert Ederer, Franz Mueller, and Bernard Dempsey.

---

[1] Solidarism is most closely associated with the work of the German Jesuit economist Heinrich Pesch. For more about his work see the English language translation of Pesch's *magnum opus -- Lehrbuch der Nationalökonomie/Teaching Guide to Economics,* by Heinrich Pesch translated by Rupert J. Ederer, The Edwin Mellen Press, ten-volume set, 2002-2003.

Capitalism is an economic system constructed around a market structure that is based on the premise that private individuals know their own needs and wants and therefore should be free to control the decision-making process that allows them to best meet those needs and satisfy those wants. Capitalism is reinforced by the philosophy of individualism that originated in the 17th-18th century Enlightenment wherein the freedom of the individual is of utmost importance. Libertarians assert that no limits should be imposed on the freedom of individuals who by serving their own interests *ipso facto* serve the common good. Private groups are seen as collusive and therefore destructive of individual freedom and the common good. Public groups are seen as a direct threat to the freedom of individuals.

Socialism is an economic system in which decision-making is located in a public authority and is based on the premise that private individuals do not always know their own needs and wants and that the common good is not well-served by individual freedom. This system insists on public control of decision-making in order to properly address human needs and wants and to protect and preserve the common good. Socialism is reinforced by a collectivist philosophy such as Marxism, fascism, or democratic socialism that have one thing in common: economic resources are best allocated by a system that constrains individual freedom and replaces markets with centralized decision-making as to how economic resources are allocated. Private groups are seen as a threat to public control.

In *Capitalism, Socialism, and Democracy*, Schumpeter called attention to the growing influence of socialism in economic affairs.

> **… I define (centralist) socialism as the organization of society in which the means of production are controlled, and the decisions on how and what to produce on who is to get what, are made by public authority instead of by privately-owned and privately-controlled firms. All that we mean by the March into Socialism is, therefore, the migration of people's economic affairs from the private into the public sphere. [Schumpeter, p. 415].**

In 1961, Waters called attention to the connection between economic freedom and Schumpeter's march-into-socialism warning.

> **… there is another important relation between Catholic social thought and Schumpeter's explanation of the passing of capitalism. Since the kind of socialism expected is characterized by centralized, autonomous, public control, we must anticipate the loss of one kind of economic freedom, viz., the freedom of private individuals and groups to make economic decisions; and this freedom, it need not be emphasized, is most important in Catholic thinking. Therefore, the work, *Capitalism, Socialism and Democracy*, alerts the Catholic, as no other piece of literature does, to the importance of arresting the tendency to socialism. [Waters 1961, p. 136].**

Solidarism is an economic system that is constructed around a market structure in which decision-making is shared by private individuals, private groups, and public authorities but is located preferentially in persons who notwithstanding their human imperfections have the necessary competency to know their own needs and wants and therefore should be largely free to control the process that helps them meet those needs and satisfy those wants. At times, however, private individuals are unable to address their own needs and wants as for example when market forces relocate economic resources in a way that creates local pockets of unemployment and poverty or individuals find themselves at cross purposes as with disputes between employers and workers. Under those circumstances, solidarism proposes the establishment of private groups such as supra-firm alliances to intervene and help these persons sort through the issues that are keeping them from serving their own best interests. These private groups are grounded in solidarity in that they arise from agreement to pursue a specific objective not as individuals but through private-group action. This action is not collusive in nature as long as the parties involved are not motivated by the opportunities to exploit others not included in the group.

Following *Quadragesimo Anno* [§§ 75, 80], these groups represent the implementation of the principle of subsidiarity that underscores the importance of intermediary organizations between the human person on the one hand and the much more powerful public authority on the other hand. They have the effect of protecting the human person from a heavy-handed public authority. Moreover, by establishing themselves closer to that person these groups are able to provide greater opportunities for that person to participate actively and freely in the decision-making process. In solidarism, public authorities intervene only when the individual and private-group decision-making process break down.

Shortly before his death in January 1950 Schumpeter spoke openly and approvingly of the reconstruction of the economy along the lines suggested in *Quadragesimo Anno* as an "alternative system to socialism that would avoid the 'omnipotent state''' and in a private conversation with Goetz Briefs urged him and by implication his colleagues in the Catholic Economic Association to design such an alternative. [Waters 1961, pp. 136-137].

Many years later Waters insightfully set down the hard-core differences between neo-classical economics, which serves as the foundation to our understanding of the capitalist system, and solidarism.[1] As to neo-classical economics, there are four hard-core principles. First, the economy is self-regulating. Second, the basic unit of the economy is the utility-maximizing individual who functions in a competitive economic environment. Third, by virtue of humankind's faculty of reason, economic science provides certainty regarding the workings of the economy. Fourth, behavior in economic affairs is regulated contractually as for example in the wage contract and the sales contract. [Waters 1988, pp. 114-115].

---

[1] In this article Waters did not set forth the hard-core principles of socialism probably because he was an open advocate of solidarism.

As to solidarism, there are four hard-core principles. First, economic decision-making is regulated by private institutions and groups in which the public authority is limited by the principle of subsidiarity. Second, the basic unit of the economy is the person whose behavior is much more erratic than the utility-maximizing individual, at times acting rationally and at other times non-rationally because the person functions in an economic environment that is at once cooperative and competitive. Most importantly, however, the person has a sacred dignity that cannot be diminished in any way whereas the individual of neo-classical economics is valued instrumentally. Third, solidarism rejects the determinateness of neo-classical economics and identifies economics not as a natural science but a moral science. Fourth, the rights of the person are not contractual in nature. They are instead inalienable because they derive from their sacred dignity. [Waters 1988, pp. 117-120].

References

Becker, Joseph M. 1959. ***Shared Government in Employment Security: A Study of Advisory Councils*****, New York: Columbia University Press.**

Schumpeter, Joseph A. 1950. ***Capitalism, Socialism, and Democracy*****, third edition, New York: Harper & Brothers Publishers.**

Waters, William R. 1988. "Social Economics: A Solidarist Perspective," ***Review of Social Economy*****, Volume XLVI, Number 2, October.**

Waters. William R. 1993. "A Comment on 'Social Economics and the New World Order: A Roman Catholic Perspective'," ***Forum for Social Economics*****, Volume 23, Number 1, Fall.**

Waters, William R. 1961. "Schumpeter's Contributions and Catholic Social Thought," ***Review of Social Economy*****, Volume XIX, Number 2, September.**

X. GOVERNMENT INTERVENTION AND THE PRINCIPLE OF SUBSIDIARITY

The principle of subsidiarity states that (1) larger, stronger communities should not take about the functions of smaller, weaker communities, but instead (2) should help the smaller, weaker ones function more effectively. That means, for example, if a private company is fully capable of generating electric power, there is no need for power generation to be directly in the hands of the government. Instead, the government might offer the private company tax credits on its investments in new power generation facilities, in order to help that company bring that power on line. It also means that if airport security, for instance, cannot be handled effectively by private companies, the federal government should intervene and take control of security. Thus, subsidiarity protects the individual from an overreaching government and helps assure that he/she will be able to act freely in economic affairs.

By affirming a strong preference for private enterprise compared to public enterprise, the principle of subsidiarity effectively decentralizes ownership and control of economic activities that in turn (1) lead to a greater diversity of goods and services produced because entrepreneurs have a freer hand; (2) a smaller risk that large-scale mistakes will be made because in general private enterprises have a smaller reach than public enterprises; and (3) private enterprises will be more responsive to their customers because they are driven by the profit motive.

The principle of subsidiarity encourages a sense of community through the establishment of private organizations midway between the state and the person. There are two kinds of intermediary bodies in the economic order of special interest: supra-firm alliances and inter-firm partnerships. These bodies fulfill the general functions of the "vocational groups" that Pius XI refers to in his 1931 encyclical *Quadragesimo Anno*. In contrast to mainstream economics which perceives cooperation as invariably zero-sum collusive behavior, personalist economics sees it as has having positive-sum possibilities.

An inter-firm partnership is cooperation between two or more firms in which there are no new formal organizational arrangements. A supra-firm alliance is cooperation between two or more firms by means of a distinct, formal organization which has a staff and its own decision-making role. Of the two, the supra-firm alliance is the more complex organizationally and more subject to attack as collusive.

Cooperation and decentralization of decision-making occur *within* business enterprises and organizations as, for example, when workers are empowered to participate in decision-making through the establishment of quality circles and large companies are restructured to allow their subsidiaries more control over decisions. These too represent subsidiarity in action as "subsidiary" implies. However, they are not addressed herein because they are already very well-known and documented and in general involve a single functional unit wherein competition is subordinate to cooperation whereas partnerships and alliances

occur across functional units wherein competition has to be dampened for cooperation to come to the fore.

Inter-firm Partnerships and Supra-firm Alliances

An inter-firm partnership involves a nonformalized understanding between, for example, a producer and supplier, an employer and employment agency, an entrepreneur and a banker in which their day-to-day relationship is governed by more than the profit-maximization principle. Such an understanding may arise initially from the firms' sharing common space such as a parking lot or garage, a hallway or elevator, a loading dock or delivery agent. An understanding may arise even among competing firms which form a critical mass in one location in order to better serve each one's best interests without exploiting the others involved. Examples abound in the United States both today and years ago: Chicago (railroads), Detroit (autos), Silicon Valley (computing), Pittsburgh (steel), Milwaukee (beer), St. Louis (shoes), New York (finances), Boston (medical education). Such partnerships known locally as "antique alley," "farmers market," "restaurant row," or "flea market" develop even in small cities.

To be an authentically separate level of decision-making, supra-firm alliance must be formalized and largely independent of the larger and more powerful public authority, that is outside the direct control of the state. The supra-firm alliance must be voluntary (so as not to usurp control from a member of the group that is functioning satisfactorily) and representative of the various private-individual organizations that are allied (so as to know more precisely its own domain). The supra-firm alliance should be supportive but nonintrusive in the sense that if a member encounters organization-specific dysfunction in the workplace and asks for assistance, the group should be ready and willing to provide whatever help it can in order to deal with the dysfunction in a satisfactory fashion.

At the supra-firm level, control of the workplace proceeds not through owning property but through sharing problems. Thus, the workplace at the supra-firm level may be defined as any work site(s) where dysfunction is occurring that cannot be managed satisfactorily at the intra-firm level and where the immediately affected persons voluntarily request assistance from a private group of persons all of whom are familiar with the work site(s), understand the dysfunction occurring there, and have some direct interest in the good or service produced there.

The supra-firm alliance is to the economic order what the vital organ is to the human body. Just as vital organs in the human body are specialized cells with a specific function that is essential to physical health and well-being, so too the supra-firm alliance is a specialized group of private parties to provide for the well-being of the economic order. Dysfunction is as inevitable in the economic order without such alliances as illness is in the human body with a failing or missing vital organ.

Supra-firm cooperation falls into two general classes: industry-specific and area-specific. As to the industry-specific type, the cooperating firms likely are competitors in the product market. With respect to the area-specific variety, the allies may compete in the product market and probably compete in the resource market, particularly the labor market. The following four examples reflect the great diversity of such alliances, and drive home the lesson in subsidiarity that when private enterprise acting alone cannot manage certain problems it is not necessary to turn immediately to government for assistance.

Advanced Book Exchange (AbeBooks) is the world's largest online marketplace for used, rare, and out-of-print books. The exchange brings together thousands of independent booksellers worldwide. Each seller decides the books that are listed, their general condition, price, and other information. Buyers can browse the books through a convenient search function. The on-line exchange allows buyers to comparison shop and sellers to reach a much wider market.

The Business Software Alliance was established to combat piracy of software products. BSA members include among others Adobe, Apple, Borland, Microsoft, and Symantec. To help reduce the unauthorized installation of proprietary software products without a license BSA has been supporting the preparation of an annual report on the extent of piracy and dollar losses by country every year since1992. Unrestrained piracy takes away the economic gain (profit) necessary for private enterprise to survive and thereby destroys the very means by which new and better products and services are brought to the marketplace.

Louisiana Offshore Oil Port (LOOP) is a limited liability company that offloads and stores foreign crude oil from tankers for eventual transport by pipeline to refineries throughout the Gulf Coast and Midwest. LOOP was organized in 1972 and has four owners: Ashland Oil, Marathon Ashland Pipe Line, Marathon Oil, and Shell Oil. To assure the safe handling of oil from deep draft supertankers the offloading is done at a terminal located 18 miles off the Louisiana coast in 110 feet of water. A pipeline transports the oil to onshore storage facilities and from there to the participating owners' refineries. LOOP was built and continues to operate only because the four owners understand that they can reduce the risks in offloading and transporting crude oil more effectively by working together than by operating independently. To reinforce cooperation, LOOP's board of directors is organized on the democratic principle that, irrespective of company size or ownership share, every participating company has just one vote. LOOP, in effect, is a producer cooperative.

PRIDE of St. Louis, which was established in 1972, is a voluntary labor-management organization in the construction industry that meets monthly to identify and deal with stress points that interfere with the completion of building projects on time and within budget. PRIDE members include representatives from the various building trades, construction firms, architectural and engineering firms, and material suppliers. It is an excellent example of private group decision-making that seeks to find ways to deal with

problems in the construction industry that cannot be addressed by private individual decision-making and eliminates the need for public group intervention.

AbeBooks and Business Software Alliance are industry-specific alliances. PRIDE and LOOP are both area-specific and industry-specific.

Cooperation Is Not Collusion

Ever since Smith's *Wealth of Nations*, economists have stressed that competition is the force that organizes and energizes the market economy. Any effort to dampen competition, they have argued for more than two centuries, is harmful and for that reason is looked at askance.

It follows that in mainstream economics, supra-firm alliances and inter-firm partnerships are largely regarded as collusive, as deliberate efforts on the part of producers to extract from consumers by devious means what they are not able to earn by honest means through competition. All such practices are characterized as zero-sum arrangements that are to be exposed and rooted out.

We are not naive in this matter. Collusion and zero-sum practices for well over a century have plagued the U.S. market economy and have been used to victimize less powerful persons such as consumers, small businesses, and taxpayers. It is fully appropriate to break up such practices and to prosecute and punish the perpetrators.

Even so, we are not blind either. Cooperation also organizes and drives the market economy, although more so in an economic order where the social value of community is prized along with the social value of individual freedom which undergirds competition.

The alliances and partnerships that we have in mind are expressions of the organizing and energizing force of cooperation. What distinguishes these alliances and partnerships from collusive arrangements is that they yield positive-sum outcomes. Rather than being condemned, these types of alliances and partnerships should be affirmed as means that ultimately help meet human material need and satisfy human wants.

Positive-sum cooperation at both the supra-firm level and the inter-firm level is entrepreneurial because it represents a change in the way economic affairs are organized and conducted. In the United States, inter-firm and supra-firm cooperation evoke the usual resistance that all entrepreneurs encounter. The successful entrepreneur understands at least intuitively that cooperation is not a substitute for competition and that cooperation is not possible without striking a new balance between the sociality of human beings and their individuality.

At a time when big government is getting bigger, creating even greater distance between decision-makers and the persons effected by their decisions, intermediary alliances based on non-collusive cooperation such as PRIDE and LOOP offer promise for slowing the

growth of big government thereby helping preserve the free exercise of economic initiative. The need for maintaining private control of economic decision-making is necessary even when big government is good government because as Becker audaciously asserts in his defense of the principle of subsidiarity "good government is not a substitute for self-government when the governed are persons." [Becker, p. 9].

References

Advanced Book Exchange (AbeBooks). "Welcome to AbeBooks," available at www.abebooks.com/books/Welcome/ (accessed February 21, 2013).

Becker, Joseph M. 1959. *Shared Government in Employment Security: A Study of Advisory Councils*, New York: Columbia University Press.

Business Software Alliance. "About BSA," available at http://www.bsa.org/country/bsa%20and%20members.aspx (accessed February 14, 2013).

Louisiana Offshore Oil Port (LOOP). "The LOOP Story," available at http://www.loopllc.com/About-Loop/Story (accessed February 14, 2013).

Pius XI 1931. "Quadragesimo Anno," available at www.vatican.va/holy_father/pius_xi/encyclicals/documents/hf_p-xi_enc_19310515_quadragesimo-anno_en.html (accessed January 2, 2013).

PRIDE of St. Louis. "About PRIDE," available at http://prideconstruction.org/english/about.html (accessed February 13, 2013).