

**FREEDOM OF ECONOMIC INITIATIVE, INTERMEDIARY GROUPS,  
AND A PERSONALIST ECONOMY**

**Edward J. O'Boyle, Ph.D.**  
**Senior Research Associate**  
**Mayo Research Institute**  
[www.mayoresearch.org](http://www.mayoresearch.org)  
[edoboyle737@gmail.com](mailto:edoboyle737@gmail.com)

**June 11, 2013**

**“The individual today is often suffocated between two poles represented by the State and the marketplace.” [John Paul 1991, §49].**

---

**In economic affairs, as in other human activity, there are three kinds of freedom: freedom *from*, freedom *to*, and freedom *for*.<sup>1</sup> Freedom *from* means the absence of any physical constraint or psychological compulsion on a person’s acting. 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.<sup>2</sup> 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.**

**In the following, we are concerned with four questions. First, what are the three ways in which decisions are made in economic affairs? Second, what role does economic freedom play in a market economy? Third, how important is economic freedom in a market economy? Fourth, how best to preserve and protect freedom of economic initiative?**

### **WHAT ARE THE THREE WAYS IN WHICH DECISIONS ARE MADE IN ECONOMIC AFFAIRS?**

**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**

---

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

<sup>2</sup> 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.

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. That is to say – taking the three justifications for the principle of subsidiarity in inverse order – rulers are not always able to do what is best for their subjects; even when they are able, they are not always willing; even when they are able and willing, the members may prefer to do it for themselves, for *even good government is not a substitute for self-government when the governed are persons*. [Becker, pp. 8-9, 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.<sup>1</sup> In addition to Becker and Waters, supporters of solidarism or intermediary bodies include Heinrich Pesch, Joseph Schumpeter, Goetz Briefs, Rupert Ederer, Franz Mueller, and Bernard Dempsey.

---

<sup>1</sup> Solidarism is most closely associated with the work of the German Jesuit economist Heinrich Pesch. For more about his work see Ederer’s 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 persons, private groups, and public authorities but is located preferentially in private 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 persons 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 persons 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 private persons acting alone 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* [Pius XI, §§ 75,80], these private groups represent the implementation of the principle of subsidiarity that underscores the importance of intermediary organizations between the private person on the one hand and the much more powerful public authority on the other hand. They have the effect of protecting the private person from a heavy-handed public authority. Moreover, by establishing themselves closer to that person those 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 private person 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.<sup>1</sup> 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].

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, most fundamentally 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].

#### WHAT ROLE DOES ECONOMIC FREEDOM PLAY IN A MARKET ECONOMY?

Our discussion of economic freedom begins with its role in terms of the organizing principles that are foundational to a market economy.<sup>2</sup> The five economic processes are like the five principal parts of a twin-engine commercial jetliner: engines, cockpit and cabin, wings, flaps and rudder, and landing gear. Each one has its own unique function.

The five economic processes are production, distribution, exchange, consumption, and investment. Production involves the transformation of resources into consumer, capital, and public goods and services. Distribution moves those goods and services through space and time from the workplace to the marketplace. Exchange involves the transfer of the ownership of the goods and services from the producer to the user.

Consumption is the fourth process in which private goods and services are used to satisfy a

---

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

<sup>2</sup> Hereafter, a market economy is one in which decision-making is largely in the hands of private individuals acting alone or private groups acting collectively.

want or meet a need. A need is something required; a want is something desired. Needs and wants differ from person to person because human beings either in terms of the body and the spirit are magnificently different. And needs and wants inhere not in the good or service itself, but in the human person. Consumption also involves the utilization of public goods and services to meet needs that cannot be met at all or cannot be met as effectively by private goods and services.

Investment is two dimensional, involving both capital goods and services and public goods and services. The entrepreneur initiates and directs investment in capital goods and services that are deployed to enhance efficiency in production, distribution, and exchange. Public officials with the consent of the public direct investment in public goods and services to improve the infrastructure of the economy in order to better provision those common needs that derive from persons and families living together in communities.

Humans work to be able to purchase the goods and services they need or desire. They also work to meet their need to belong that originates in their human sociality and their need for opportunities to make use of their creative talents that originate in their human individuality. Conventional economics addresses work as a source of income but ignores work in terms of belonging and human creativity. Consumption is critically important because it provides the goods and services, such as food, shelter, clothing, and medical care, necessary to sustain human life and restore human vitality through rest. Consumption of goods and services serve an additional purpose overlooked by conventional economics. They are necessary to the experience of encountering truth, goodness, and beauty, the needs of the human spirit. For example, to experience the beauty of the Golden Gate Bridge it is necessary to travel to San Francisco and to purchase certain goods and services along the way in order to make that trip possible. A university education requires years of considerable expenditures on goods and services in order to take hold of the truth either narrowly defined in terms of specific professional skills such as accounting or chemical engineering or much more broadly construed in terms of understanding the human condition.

Production, distribution, exchange, consumption, and investment are organized by three principles: competition, cooperation, and intervention. Competition is the human disposition to undertake certain tasks individually for the individual reward. Cooperation is the human disposition to undertake certain tasks collectively because they cannot be done at all or as well by an individual working alone. Competition and cooperation are activating principles supplying energy to economic affairs in the same way that the engines of a twin-engine aircraft provide the power for lift. The third organizing principle – intervention – operates in the limiting mode acting as a force to control certain abuses that may attend overly vigorous competition and cooperation just as the flaps and rudder allow the pilot to control the aircraft for the safety and well-being of all those on board.

The limiting principle of intervention can be operationalized by a public agency or a

private group. For example, the U.S. Department of Labor enforces the federal minimum wage; the U.S. Department of Commerce intervenes when necessary to stop foreign producers from dumping products in the United States. Private industry groups have intervened many times over the years to forge agreements on standards for specific items such as standard sizes for shoes, clothing, and tires, standard grades to identify different quality lumber and cuts of beef, standard factors to identify differences in insulation material and sun screen. And professional societies such as for lawyers, accountants, and engineers establish standards of professional practice and ethical conduct for their members. The effect of these standards is to limit producer/professional freedom to create his/her own standards that if carried through by all producers/professionals could lead to confusion and possibly chaos.

The effective utilization of the three organizing principles of competition, cooperation, and intervention requires the affirmation of a particular value across society. Competition clearly depends on society valuing economic *freedom* because how does competition come into play if human beings do not enjoy the freedom necessary to compete? Cooperation depends on the social value of community in the sense that tasks will not be undertaken collectively if the persons who are assigned those tasks are not willing to come together as a community or work as one. Intervention depends on the social value of equality if that intervention is to be successful and long-lasting.

But there is a price to pay for each of the three social values of freedom, community, and equality. Each one depends on a human beings faithfully practicing one of the three principles of economic justice. Economic *freedom* is undermined when commutative justice is violated because persons who have been “ripped off” lose some of their freedom to act and compete in economic affairs. Community cannot exist without the contributions of their members, without faithful adherence to contributive justice. Equality is denied when distributive justice is flaunted by, say, public officials who discriminate against some and play favorites with others.

Perhaps no one depends more on economic *freedom* in economic affairs than the entrepreneur who triggers change in five ways. In the marketplace, the entrepreneur introduces a new good or service and penetrates a new market. In the workplace, the entrepreneur utilizes different materials in the production process, introduces a new process of production, and develops a new way of organizing, managing, administering the business enterprise. At times, more than one type of change is necessary for success. For example, introducing a new product may require a change in the process of production.

Entrepreneurs are persistent. Indeed, Schumpeter identifies persistence as the key personal trait of the entrepreneur, setting him/her apart from others. The entrepreneur is dogged in the pursuit of his/her innovational ideas, and simply does not give up in the face of opposition. Entrepreneurs are visionary in the sense that they see opportunities and possibilities where others see nothing beyond the present. Large established companies

resist entrepreneurial change in a way that is reminiscent of Newton's third principle of motion: for every action there is an equal and opposite reaction. Thus entrepreneurs often are associated with small companies including ones that they themselves established specifically to implement their innovational ideas. They are driven at times by the survival needs of the company, but are not always successful. However, they are more likely to accept the risk of failing and to try again in a culture where failure in business does not spell personal failure and they are free to act in economic affairs.

The entrepreneur is the pilot of the economy who decides where the economy is headed, following in general one of five flight plans, but capable of departing from that flight plan as circumstances require or allow, at times flying directly into heavy weather to deliver the payload. By making credit available to the entrepreneur through the loan process, the private commercial banker provides the fuel necessary to power the economy's twin engines of cooperation and competition.

Left *free* to act, successful entrepreneurs engage in a dynamic process that has two major effects. First, they create new business enterprises, new jobs, new resource requirements that translate into new opportunities for workers, resource holders, suppliers, investors, and communities. At the same time, they destroy old business enterprises, old jobs, established supplier networks that translate into financial hardship or ruin for other workers, resource holders, investors, and communities.

As a matter of conscience, the successful entrepreneur must weigh the negative aspects of innovation against its positive aspects. In this regard, the principle of the double effect comes into play and sets limits on what the entrepreneur should do. The destructive, negative effects must not be greater than the creative, positive effects, and the entrepreneur must not intend the destructive effects as a way of singling out certain persons or organizations for punishment.

### HOW IMPORTANT IS ECONOMIC FREEDOM IN A MARKET ECONOMY?

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 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 its 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 but 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].

While the right of private property assures that the goods produced belong to the persons who produced them and who thereby have a rightful claim on the use of those goods, that claim is not absolute. There is a second claim on their use based on the principle of the universal destination of the earth's goods that states that the material goods of this world are intended for the use of all humankind and are not governed and protected absolutely in

their use by the right of private property. [John Paul 1991, §§30, 34].

### HOW BEST TO PRESERVE AND PROTECT FREEDOM OF ECONOMIC INITIATIVE?

The principle of subsidiarity states that (1) larger, stronger elements of society should not take about the functions of smaller, weaker elements, but instead (2) should help the smaller, weaker elements 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 private person 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 are smaller 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 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 a collusive agreement.

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 the word “subsidiaries” 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 Partnership.**

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 rule. 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), 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.

#### **Supra-firm Alliance.**

To be an authentically separate level of decision-making, the 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 (usually, in an industry sense) 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 which books to list, 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 since 1992. 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.

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. The Appendix contains several other examples of supra-firm alliances.**

**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 which 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.

## CONCLUDING COMMENTS

John Paul rejects the notion that the Church has a model for organizing economic affairs. Instead he argues that economies must be organized “through the efforts of all those who responsibly confront concrete problems in all their social, economic, political, and cultural aspects, as these interact with one another.” [John Paul 1991, §43]. In this regard he underscores the importance of the market, private enterprise, the common good, economic freedom, subsidiarity, solidarity, worker participation in enterprise decision-making, the universal destination of the world’s goods, and the legitimacy of profit. [John Paul 1991, §§43, 48, 15, 30, 35]. And rejects socialism out of hand. [John Paul 1991, §§13, 35].

How does capitalism -- John Paul’s preference is business economy, market economy, free economy – measure up as an acceptable system for organizing economic affairs? John Paul’s answer, to simply, is that if under such an economic system freedom is absolute and its ethical and religious dimensions are denied it is not acceptable. If, on the other hand, economic freedom is not absolute, where it is constrained as we have indicated in the foregoing, that kind of economic system is acceptable. [John Paul 1991, §42].

How does solidarism measure up? Unlike capitalism and socialism, John Paul does not refer directly to solidarism -- the third way of organizing economic affairs. However, twice in *Centesimus Annus* John Paul addresses the significance of bodies in the social order between the individual on one hand and the state on the other.

... the social nature of man is not completely fulfilled in the State, but is realized in various *intermediary* groups, beginning with the family and including economic, social, political and cultural groups which stem from human nature itself and have their own autonomy, always with a view to the common good. [John Paul 1991, §13; emphasis added].

Apart from the family, other *intermediate* communities exercise *primary* functions and give life to specific networks of solidarity. These develop as real communities of persons and strengthen the social fabric, preventing society from becoming an anonymous and impersonal mass, as unfortunately often happens today. It is in interrelationships on many levels that a person lives, and that society becomes more “personalized.” [John Paul 1991, §49; emphasis added].

The economics profession needs to recognize that besides capitalism and socialism there is a third way -- solidarism -- to organize economic affairs. Waters, as cited earlier, asserts that the logic of Catholic principles actually *dictates* the solidarist system [Waters 1993, p.

34]. And John Paul with others has supplied a modern philosophical foundation for solidarism -- personalism -- to replace the absolutist individualism of the capitalist system and the suffocating collectivism of socialist regimes that he condemns in *Centesimus Annus*.

A personalist economy is modeled after John Paul's recommendations from *Centesimus Annus*, specifically the following: the market, private enterprise, the common good, economic freedom, subsidiarity, solidarity, worker participation in enterprise decision-making, the universal destination of the world's goods, and the legitimacy of profit. [John Paul 1991, §§43, 48, 15, 30, 35]. The *most important* characteristic of a personalist economy is economic freedom. Its *distinguishing* characteristic is the unique role played by cooperating intermediary groups.

Keeping all of the essential characteristics of solidarism including especially economic freedom and recognizing its contemporary rootedness in personalism, we prefer to change its name to **personalist economy** where instead of referring to the economic agent as *homo economicus* we substitute the *acting person*.

More work must be done to accumulate the evidence indicating that a personalist market economy offers a viable and practical "third way". This work entails identifying intermediary bodies, especially supra-firm alliances, that are positive-sum arrangements for addressing problems in the marketplace or workplace that cannot be addressed successfully through individuals acting alone.

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 and demonstrating the viability of a personalist economy.

With its heavy reliance on intermediary groups to preserve and protect economic freedom, a personalist economy represents a viable alternative to the absolutist individualism of capitalism and the suffocating collectivism of socialism. The evidence that we have presented herein, which we submit breaks the stereotype of private group decision-making as necessarily and exclusively collusive, demonstrates that a personalist economy is more than a viable alternative. In the United States it is a functioning reality with promise of someday finally defeating socialism as the only option available for a dysfunctional capitalist economy.

## References

- Advanced Book Exchange (AbeBooks). "Welcome to AbeBooks," available at [www.abebooks.com/books/Welcome/](http://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).
- Dulles, Avery 1995. "John Paul II and the Truth about Freedom," *First Things*, August/September.
- European Communities. *How Does the European Community Work?*, Luxembourg: Office of Official Publications of the European Communities, 1996.
- Grisez, Germain and Russell Shaw 1974. *Beyond the New Morality: The Responsibilities of Freedom*, Notre Dame IN: 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](http://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/document\\_s/hf\\_jp-ii-spe\\_19870910\\_reagan-museo\\_en.html](http://www.vatican.va/holy_father/john_paul_ii/speeches/1987/september/document_s/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](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).
- 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](http://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 2013. "About PRIDE." Available at <http://prideconstruction.org/english/about.html> (accessed February 13, 2013).**

**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, pp. 113-143.**

**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, pp. 33-34.**

**Waters, William R. 1961. "Schumpeter's Contributions and Catholic Social Thought," *Review of Social Economy*, Volume XIX, Number 2, September, pp. 133-141.**

## APPENDIX

- ▶ Alliance of Arizona Nonprofits. Available at <http://www.arizonanonprofits.org/content/overview>
- ▶ Biopesticide Industry Alliance. Available at: <http://www.biopesticideindustryalliance.org/index.php>
- ▶ Fair Business Alliance. <http://www.fairbusiness-alliance.com/?q=node/1>
- ▶ Geismar Area Mutual Aid (GAMA) is an organization of companies located adjacent to one another along the Mississippi River in Geismar, Louisiana.



These companies are committed to assist a member company in the event of an emergency such as a fire or explosion. Its website ([www.gamaid.org](http://www.gamaid.org)) is accessible only to a member company.

- ▶ Global Alliance for Improved Nutrition (GAIN) <http://www.gainhealth.org/partnerships/business-alliance>

- ▶ **Global Business Alliance of New England**  
<http://www.gbane.org/>
- ▶ **Power.org. Available at:**  
<https://www.power.org/>
- ▶ **The 2020 European Fund for Energy, Climate Change, and Infrastructure (Marguerite).**  
<http://www.margueritefund.eu/aboutus.php?pageid=2>
- ▶ **The Alliance of Area Business Publications. Available at:**  
<http://www.bizpubs.org/section.asp?secID=7>
- ▶ **WasteCap Resource Solutions. Available at**  
<http://www.wastecap.org/>
- ▶ **Unemployment Insurance Advisory Council: Wisconsin. Available at**  
<http://dwd.wisconsin.gov/uibola/uiac/#contentheader>
- ▶ **Unemployment Insurance Advisory Council: South Dakota. Available at**  
<http://dlr.sd.gov/ui/uiadvisorycouncil.aspx>