

APPLYING CATHOLIC SOCIAL TEACHING TO ECONOMICS AND ECONOMIC AFFAIRS

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[T]he Chair of Peter is not a chair in economics.” [von Nell-Breuning quoted in Mueller, p. 65].

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. Our interest centers selectively on the following seven subjects.

- freedom
- economic gain
- economic justice and ill-gotten gain
- just price
- social justice
- private property
- “third way”

We address three subjects elsewhere: market system, just wage, and government intervention and 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.” [Mueller, p. 65; emphasis added].

I. FREEDOM

In economic affairs, there are three kinds of freedom: freedom *from*, freedom *to*, and freedom *for*. 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.¹ 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 on the occasion of his meeting 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.*

² Commutative justice requires that the parties involved in a marketplace or workplace transaction 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.

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 1987b, §3; emphasis in original].

Also in 1987, John Paul makes the extraordinary statement in *Sollicitudo Rei Socialis* (SRS) 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].

For more on the centrality of freedom to human nature, see John Paul 1991, §25.

In *Centesimus Annus* (CA) John Paul's 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 is strictly conditional. See John Paul 1991, §35.

In that encyclical John Paul centers attention on the fundamental error of socialism (1991, §13) and condemns for "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]. He states that an economy must be guided by subsidiarity to assure economic freedom and by 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].

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].

II. ECONOMIC GAIN

Markets work on the basis of the economic gain. 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? If the answer is affirmative, that person 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 truly 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, exchange cannot be carried out.

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 when the baker hires a 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 the clerk would not accept the job.

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. 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 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.

It follows that there is no exchange without economic gain, no market system without freedom.

III. ECONOMIC JUSTICE AND ILL-GOTTEN GAIN

Limits on the amount of gain 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 commutative, distributive, and contributive justice.

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. Equal burden means 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 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. 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 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 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.

IV. JUST PRICE

We turn first to Dempsey 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].

Dempsey’s Jesuit colleague 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... 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 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 and social justice. [Divine, Chapter 31, p. 2].

For more on the just price see Dempsey, pp.98-100.

V. SOCIAL JUSTICE

Social justice is a concept used widely but with different meanings for different users. Fifty years ago Jancauskas [p. 34] observed that the concept is “vague and ill-defined.” Thirty years later Waters [1989, p. 113] added that it is “a very helpful but ambiguous term.” Twenty years after Waters’ comment, Ederer [p. 114] stated that social justice has been reduced to “simply a slogan.”

There are two other sources of ambiguity. First, social justice is referred to under at least three other labels: constructive justice, legal justice, and general justice. [Dempsey, p. 165; Waters 1989, p. 95 and McKee, p. 3; Waters 1989, p. 113]. Second, some ambiguity originates in careless scholarly work. The following example helps 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 1937a, §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”.¹ [Pius XI 1937b 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 twice in Dempsey’s influential *The Functional Economy* [pp. 220, 372]. Clearly, “for” indicates a right of the individual whereas “from” signifies a duty.

A clear understanding of commutative, distributive, and contributive justice 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 “Atqui socialis justitiae est id omne *ab* singulis exigere, quod ad commune bonum necessarium sit.” [Pius XI 1937a, §51; Latin text; emphasis added].

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.

Drawing from 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 1937b, §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.

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, 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.

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.

More powerful communities in the social order have a duty according to 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. 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. 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. 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 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. 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 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* (QA). By this, Pope Pius XI meant neither the theological virtue nor caring. Rather, the Pontiff’s intent was to identify social charity with solidarity. To underscore this important point, Ederer [p. 114] asserts that the concept of solidarity was developed at length and identified with social charity by John Paul in SRS.

In that encyclical 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 1987a, §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 1987a, §40].

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 means contributive justice. [Benedict, §35]. Even so, Benedict offers the following insight to clarify the difference between justice and solidarity.

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 economy*. 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].

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 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 profit maximization 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.

VI. PRIVATE PROPERTY

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 *person of action* of the personalist persuasion acknowledges both.

Writing more than 50 years ago, 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 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]. Dempsey concurs with Divine on the three arguments in defense of private property [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 is 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 in 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 that “private property ... is under a ‘social mortgage’.” [John Paul 1987a, §42].

In SRS John Paul identifies one principal source 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 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 1979, §III.4; emphasis added].

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 [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*. Such an interpretation is consistent with 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. 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. Social mortgage conceptually supports that end.

John Paul’s assertion that private property is under a social mortgage raises two elemental questions. First, why is property subordinated to 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 1987a, §42; emphasis in original].

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

Private property is not an absolute principle because, as John Paul argues, God created the universe for the benefit of all humankind. The goods produced through ownership of private property are the means by which human material need is met and for that reason 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? The ownership of 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. 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 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, and patents. 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.

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 *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 1937a, § 51. Latin text translated into English; emphasis added].

Norms That Explain What is Owed Under Social Mortgage

Because what is owed to another depends on how one defines and measures that obligation. As with all contingent being, social mortgage 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 unmet human material need. As to how much must be shared with others under social mortgage, at minimum must be sufficient to address basic human needs. The chief *negative* norm is the ability of private property holders to meet that need. Following 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.

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 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 1987a, §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

VII. THE *THIRD* WAY

The conventional wisdom regarding decision-making in economic affairs is that there are only two ways: the individual acting alone or 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 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 Waters found it necessary to underscore the *third way* because even 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 [personalist] 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 personalism or a system of intermediary decision-making bodies include Pesch, Schumpeter, Goetz Briefs, Danner, Ederer, and Dempsey.

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 with the 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

¹ “Solidarism” was used by Catholic social economists for many years. However, of late it has been replaced by personalism in part because solidarism today sounds out-of-date. More importantly, personalism is used throughout because it aligns much better with John Paul II’s many formal comments on economic affairs that are based on his personalist philosophy. With this insight it is clear that mainstream economics distorts the economic agent by insisting on the singular individuality embedded in *homo economicus*. In personalist economics the economic agent is constructed more broadly and realistically around the sociality of the *person of action* in addition to his/her individuality. At the same time we retain throughout “solidarity” because it still is in use today notably in recent papal encyclicals.

individual freedom and replaces markets with centralized decision-making as to how economic resources are allocated.

In 1961, Waters called attention to the connection between economic freedom and Schumpeter's warning with regard to socialism.

... 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. [Waters 1961, p. 136].

Personalism is a 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 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, personalism 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 QA [§§ 75, 80], these groups represent the implementation 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 participating actively and freely in the decision-making process. In personalism, public authorities intervene only when the individual and private-group decision-making process break down.

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

Many years later Waters set down the hard-core differences between neo-classical economics, which serves as the foundation to our understanding of the capitalist system, and personalism. 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 in the wage contract and the sales contract. [Waters 1988, pp. 114-115].

As to personalism, there are four other hard-core principles. First, economic decision-making is regulated by private institutions and groups in which the public authority is limited by 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, personalism 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 inalienable because they derive from their sacred dignity. [Waters 1988, pp. 117-120].

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.

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, assuring that such goods are available to meet the needs of human beings as persons and to contribute to their proper development.

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 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]. 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, other 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 1987c, §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 solidarity -- a deep and abiding personal commitment to the common good.

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