

THE PRINCIPLE OF SUBSIDIARITY IN ECONOMIC AFFAIRS

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Abstract: The European Union must continually re-examine where in the social order decision-making on political and economic affairs should be located. This challenge requires reaching agreement on the decisions that are to be controlled by the European Union and the ones to be controlled by the member states. These decisions often involve locating control in the public sector or the private sector. In these matters the principle of subsidiarity, which gives preference to private control, is instructive. There is one lesson for E.U. member states to be drawn from the U.S. experience. Ceding control of decision-making to Brussels can over time weaken the resolve and ability of member states to reclaim control over decision-making regarding political and economic affairs such that subsidiarity no longer has any effective application. The social order will have collapsed leaving no effective intermediary bodies between the E.U. and private-sector organizations, crushing member states as functional elements.

Keywords: Decision-making control, Subsidiarity, European Union, Economic affairs, United States.

To remain a viable political and economic organization, the European Union must continually re-examine where in the social order decision-making on political and economic affairs should be located. Most fundamentally, this means reaching agreement on the specific decisions that are to be controlled at the E.U. level and the ones that are to be controlled at the member-state level. Additionally, and at times simultaneously, these decisions involve locating control in the public sector or the private sector. In these matters the principle of subsidiarity, which gives preference to private vs. public control, is especially instructive to and relevant for the European Union because it was openly embraced in Article 3b of the Maastricht Treaty.

The principle that decisions should be taken as close to the citizen as possible has become an overriding one in the last few years [1].

The author's experience is entirely in the United States where from the very beginning subsidiarity has played a crucial role. Each of the 50 states is sovereign and, following the Tenth Amendment of the Constitution, retains whatever powers are not specifically enumerated for the federal government. Over the last 80 years, however, more and more control has been ceded to the federal government. Efforts to reverse that trend have met with little success over the years, with welfare reform in the mid-1990s a notable exception. Even so, those efforts continue and are renewed from time to time by election results that bring new members to Congress who seek to impose limits on the federal government in order to empower the states to take greater control of decision-making. Today those efforts relate to limits on federal spending and control over payments for health care services for the poor.

Given the similarities between the European Union with its member states, on the one hand, and the United States with its sovereign states, on the other, lessons derived from the U.S. experience have some relevancy for the E.U. In what follows, attention is focuses directly on the question of public vs. private control of decision-making in economic affairs.

This working paper begins with the five economic processes, their associated functions, organizing principles, and social values as a framework for examining the principle of subsidiarity in economic affairs. Those five processes are production, distribution, exchange, consumption, and investment.

As to production, distribution, and exchange, all of which are grounded in some type of functioning business enterprise, the issue addressed through subsidiarity relates to the conditions under which that enterprise should be privately-owned or publicly-owned. The key concern in this section is how effectively the enterprise serves its purposes.

As to the process of consumption, the issue addressed through the principle of subsidiarity is what to do for those who are unable to meet their own needs without some assistance. The key concern in this section is unmet human material need.

The process of investment is two-dimensional involving both capital goods and services and public goods and services. By reinforcing a strong preference for private

investment, the principle of subsidiarity reduces the need for public investment and thereby the scope of government in economic affairs. The key issues in this section are freedom *from* and freedom *to*.

The final section of this working paper calls attention to four instances of the principle of subsidiarity at work in economic affairs.

Economic Processes, Organizing Principles, Social Values, and Justice

Economic Processes. Economic affairs are organized around five processes. Production involves the transformation of resources into three classes of goods and services: consumer, capital, and public. It represents more than what is produced and what is earned. The production process involves the persons who produce those goods and services and importantly their need to belong that originates in their human sociality and their need for opportunities to use their creative talents that originates in their human individuality.

Distribution moves the goods and services produced 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 want or meet a need. A need is a thing required; a want is a thing desired. Needs and wants differ from person to person because humans are magnificently different. Needs and wants inhere not in the good or service itself, although we may use language that suggests as much. Rather, they reside in the human person. Thus, the critical word in "I need eyeglasses," for example, is "I." Consumption provides the goods and services such as food, shelter, clothing, transportation, and medical care necessary to sustain human life and to restore human vitality through rest, and helps meet the need of the human spirit for truth, goodness, and beauty.

To illustrate the latter point, experiencing the beauty of the Grand Canyon in the United States or the Dolomite Mountains in Italy requires the purchase of certain goods and services along the way to make that trip possible. A university education requires years of expenditures on goods and services to take hold of the truth either narrowly defined in terms of specific professional skills or more broadly construed in terms of understanding the human condition. 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, needs such as mail delivery and fire protection that originate because human beings live in community.

Investment is the fifth economic process. It 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. The public official with the consent of the public directs investment in public goods and services to improve the infrastructure of the economy in order to better provision common needs. Examples of such public

investment include expenditures on highway systems, seaports, sewer and water systems, public schools, state universities, public hospitals and clinics, parks and recreation areas.

Organizing Principles. The five economic processes are organized around three principles: competition, cooperation, and intervention. The first two are activating principles supplying energy to economic affairs in the same way that the engines of a twin-engine aircraft provide power for lift. The third organizing principle – intervention – operates in the limiting mode acting as a force to limit certain abuses that may attend vigorous competition and cooperation. For example, intervention on the part of a public body or private organization is necessary to restrain the suicidal price wars (dumping when at least one of the competitors is a foreign company) that sometimes happen when competition gets out of hand. Cooperation must be constrained or limited lest it degenerate into price fixing and collusion. Intervention may be represented as the control surfaces of the aircraft, the rudder and the flaps for example. The pilot is able to operate the aircraft safely, to set it on a course and reach its destination predictably, only when those control surfaces are operational.

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 someone working alone. Some humans are more generously endowed with the competitive disposition. Others are more disposed to cooperation. In American culture men tend to be more aggressive and competitive because even today they learn as little boys that those characteristics are important to establishing their manhood. Women are inclined to be more cooperative in part because their bodies are made for nurturing human life and in part because little girls are not encouraged to engage in the rough and tumble play of little boys.

We do not imply that women cannot learn to be competitive and that men cannot take on the nurturing role. Indeed, American culture since the sexual revolution began has been changing the stereotypes of what a little boy and little girl should be. And as a consequence, men and women alike are aggressive and competitive at times and nurturing and cooperative at other times. The balance between those dispositions differs from one person to the next.

Competition requires aggressive behavior and to the extent that men typically are aggressive competition is more masculine. Cooperation requires nurturing and insofar as women are nurturing cooperation is more feminine.

The limiting principle of intervention can be operationalized in the form of a public agency or a private group. For example, the U.S. Department of Labor enforces the federal minimum wage and the Office of Safety and Health Administration enforces workplace safety. Private industry groups have intervened many times over the years to agree on standards for specific items such as standard sizes for shoes, clothing, and tires, standard grades to identify different 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 would lead to confusion and possibly chaos. Subsidiarity gives preference to limits imposed by private groups. More about this later.

Social Values and Justice. The effective utilization of the three organizing principles of competition, cooperation, and intervention requires the affirmation of certain social values. Competition depends on society valuing freedom because competition comes into play only if human beings are free to compete. Cooperation depends on the social value of community in that tasks are undertaken collectively if the persons who are assigned those tasks are willing to work as one. Indeed many U.S. companies refer to themselves as families as a way of reinforcing that social value and breathing life into cooperation.

Intervention depends on the social value of equality. Notice the longstanding criticism of the U.S. Internal Revenue Code for the double taxation of dividend income and other provisions that today assure that more than 40 percent of all persons filing federal income tax returns pay no taxes whatsoever. Notice the inherent denial of human equality along gender lines in some third-world countries, and the inequality enforced by apartheid in other countries, and how that kind of intervention to limit human activities discredits all interventionism on the part of the governments of those countries.

There is, however, a price to pay for freedom, community, and equality. Each one depends on human beings faithfully practicing one of the three principles of economic justice. Freedom is undermined when the principle of equivalence is violated because persons who have been “ripped off” lose some of their freedom to act and compete in economic affairs.¹ Community cannot exist without the contributions of their members, without faithful adherence to the principle of contributive justice.² Equality is denied when the principle of distributive justice is flaunted by, say, public officials who discriminate against some and play favorites with others.³

Subsidiarity in Production, Distribution, and Exchange

The principle of subsidiarity addresses the question as to when a business enterprise should be privately or publicly owned and managed, and when intervention to limit competition and cooperation that is running out of control should be undertaken by a private organization or public agency. Societies are constructed around functional elements of different size and strength. The largest and strongest functional element of American society is the federal government. The smallest and weakest is the human person. Between those two is a set of four other functional elements: state governments, local governments, private organizations (such as businesses, unions, trade associations), and families. Within this set of functional elements, state governments in general are larger and stronger, while families are smaller and weaker.

The principle of subsidiarity states that (1) larger, stronger functional elements of society should not take away the functions of smaller, weaker elements, but (2) should render help (*subsidium*) so that the smaller, weaker elements are able to function effectively. If, for example, a private company is capable of generating electric power,

there is no need for power generation to be handled directly by the government. Instead, 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 as the United States discovered as a consequence of the terrorists attacks on September 11, 2001, the federal government should take control of security.

President Lincoln's formulation of this principle was:

In all that the people can individually do as well for themselves, the government ought not to interfere [2].

The principle of subsidiarity reinforces the democratic principle by widening opportunities for smaller less powerful functional elements in the economic order to participate in decision-making processes that bear upon their well-being.

Justification for the principle of subsidiarity derives from the fact that human beings are intelligent and, by virtue of free will, capable of making choices. Three conclusions flow from this basic fact regarding human nature. First, humans can be united only in terms of purpose. This unity demands human beings who are active rather than passive. Second, given the huge variation among human beings notably as regards their needs and wants, it is necessary to limit the size of the group to assure that it has the necessary homogeneity to forge agreement. If the group is large, it is necessary to limit its goals to the ones that are common to all of its members. Third, because humans are not all-knowing, it is prudent to keep groups small in order to make them more manageable [3].

By affirming a strong preference for private enterprise, the principle of subsidiarity effectively decentralizes ownership and control of economic activities that in turn (1) leads 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 need to turn a profit. The key concern in this regard is efficiency in utilizing resources and in meeting needs and satisfying wants. Further, this preference for private control helps assure that the private sector remains strong enough to retain control of decision-making as economic affairs evolve over time rather than ceding them to public control.

Subsidiarity and Consumption

The Consumer. The consumer as *homo economicus* is unique, solitary, autonomous, self-centered, and self-made, traits that accent human individuality. For example, the practice of power dressing and the popularity of health foods, along with cosmetic surgery and liposuction, give evidence of the consumer who is self-made. Self-centeredness is necessary in the sense that healthy and normal human beings are expected to address their own needs and wants to the extent of their own abilities, and is compatible with subsidiarity. Self-centeredness degenerates into selfishness in the absence of the moderation which reminds the consumer that goods and services are the

means by which needs are met and wants are satisfied and not ends in themselves.

The consumer behaves predictably in ways that are described as utility-maximizing, privacy-protecting, and commodity-acquiring. In American culture, for sure, acquiring and accumulating goods are perceived as a sign of success. As *homo economicus* the consumer is free to choose whatever he/she is able to afford, makes those choices informed strictly by reason for the purpose of satisfying some want, and is hindsighted and foresighted. Adults typically plan years ahead for their retirement, carefully budgeting -- rationally planning income and expenses -- to achieve that goal.

There is more to the consumer, however, than one gleans from *homo economicus*. The consumer is a fusion of individuality and sociality, unique and alike, solitary and communal, autonomous and dependent, self-centered and other-centered, self-made and culture bound. Soul food and Cajun cuisine originate in specific cultures and appeal especially to persons born and raised in those cultural environments. Pre-teens are persons who are dependent on their parents for the things they need and want. Similarly, the elderly may become dependent on their adult children due to some debilitating condition.

The consumer behaves in ways that are described as at once utility-maximizing and utility-satisficing, privacy-protecting and company-seeking, and commodity-acquiring and gift-giving. At times, a person may take less in terms of the maximum utility available so that a friend might have more. Or both may decide to share what they have, each one taking less than the maximum available if he/she were to exclude the other, in order that the other might have more, thereby affirming their friendship.

As a person the consumer is free to choose whatever he/she is able to afford, but is morally accountable for the choices made, makes those choices informed by reason and emotion, both by mind and heart, for the purpose of satisfying some want or meeting some need. Fear drives some consumer choices, as at times with handguns and security systems. Compulsive consumers are addicted to shopping; their choices are not rationally determined, nor are they freely made.

Human individuality prompts the consumer to make comparisons that are intra-personal, but his/her human sociality encourages regard for others. Here our language informs us about the consumer whose behavior reflects human sociality. The free-rider or deadbeat is a person with little sociality. The caring neighbor and the philanthropist are consumers with much sociality.

Subsidiarity and the Social Question. Based on a poverty threshold defined as the percentage of persons living on less than 50 percent of equivalised household income in the late-2000s, poverty in the European Union member states ranged from a low of 5.4 percent in the Czech Republic to a high of 13.9 percent in Estonia; using the same threshold, poverty in the United States stood at 17.3 percent [4].⁴ Employing a much higher criterion of poverty, an estimated 15.1 percent of the population in the United States or approximately 46.2 million persons were classified as poor in 2010 [5]. From the very start, it is necessary to differentiate (1) those poor persons who use their

resources responsibly and still do not have enough to meet their needs from (2) others who use their resources irresponsibly. Because assisting the irresponsible simply enables them to continue acting irresponsibly, it is important to do whatever is possible to restrict them from getting assistance.

Just as we had seen previously that the principle of subsidiarity is helpful in sorting out the issue of private versus public ownership and control of business enterprise, subsidiarity is helpful in reaching a decision as to where in the social order the source of assistance for the needy should be located. Subsidiarity states that assistance should be located as close as possible to the persons and families in need. This decentralization helps limit two abuses. First, it helps reduce the abuse of persons applying for assistance who are not needy or who are irresponsible because, by being closer, the agency likely is better informed and better able to identify abusers. Second, it helps remedy the problem of the program staffer who is abusive to applicants, demeaning and belittling them, because with the agency closer at hand the applicant finds it easier to complain to the supervisor about the abusive staffer, and to bring the problem to a successful resolution.

There are two benefits that flow from organizing assistance in a decentralized manner. First, applicants are more likely to actively participate in re-shaping the assistance program because they are closer to the administrative control of the program, thereby reinforcing the democratic principle that everyone should participate in the decisions that affect their lives. Second, a decentralized system allows for the development of different programs, and with the passage of time the emergence of a consensus as to the ones that work best.

Duty of the Firm. The social question raises a corollary question: What is the company or firm to do in dealing with poor customers? One school of thought that follows the libertarian philosophy argues that the poor should be free to make their own decisions with regard to their own consumption spending, and no one should intervene in such matters because the poor better than anyone else know what is best for them. And, if a specific consumer is wronged, it is a small price to pay for liberty. In any case, caveat emptor.

Another school of thought that follows the personalist philosophy asserts that the firm has a set of duties originating in the three principles of justice. First, under the principle of equivalence, the firm is admonished not to impose an unequal burden on its poor customers that derives from its greater economic power. Second, contributive justice informs the firm that it may not force additional assistance costs on taxpayers who are required by law to come to the aid of a needy person even when that person's unmet need has been made worse by a merchant whose only interest is profits. Third, in distributive justice the firm is instructed to treat all its customers as equals. That is, a merchant with multiple locations including some in the suburbs and others in the inner city, may not charge inner-city customers a higher price unless there are higher costs associated with operating in the inner city.

The libertarian perspective values liberty above all else. A person's free choices, especially when that person is an adult, should not be preempted by another person. The

personalist view, while respecting liberty, argues that no one has a right to make another person's unmet need even worse, whether through trickery, bare-knuckled exploitation, or simply by taking advantage of their innocence.

In selling to the poor the firm has a special duty under subsidiarity that it does not have in selling to others. Since customers who the poor may require help from the rest of society for their unmet needs whereas well-to-do customers do not need such assistance, subsidiarity applies when one is selling to the poor but not to better-circumstanced customers. A firm that encourages the poor to buy things that are not needed, or that are beyond their means, or worse yet that are harmful violates both subsidiarity and contributive justice and thereby abuses not only the poor but the rest of society as well. Tobacco companies exemplify this kind of double abuse. Casinos are another. And to some extent so too are retailers who sell apparel, furniture, and consumer electronics on credit in poor neighborhoods.

The firm has a duty in subsidiarity not to force its poor customers to turn to others -- friends, relatives, public agencies -- for help in meeting need worsened by the firm's marketing and selling tactics. That duty may be set forth and affirmed by various means at its disposal. To illustrate, it may be affirmed in the company's mission statement, in its code of ethics, in its operating policies, in the behavior, attitudes, and personal values of the senior management, and notably in its advertising. To be effective, however, the firm must train its employees as to the importance of this obligation and how each one is expected to carry out his/her part of that obligation. In addition, the firm must faithfully monitor its employees on this obligation and must put in place the procedures necessary to enforce compliance. The overriding concern in consumption is meeting human material need.

Subsidiarity and Investment

The entrepreneur is the key agent in economic affairs because the entrepreneur precipitates change through the investment process. Whenever the entrepreneur is successful, given a strong preference for private enterprise reflected in the principle of subsidiarity, the need for public-sector intervention and the scope of public enterprise likely are reduced. The key issues for the entrepreneur are freedom *from* excessive government control and freedom *to* risk investing in new ideas. Those freedoms are nurtured more in a social order where preference is given to private control of decision-making as opposed to public control.

The *homo economicus* of mainstream economics notwithstanding, the entrepreneur is a living, breathing person engaged in human action in economic affairs and not some totally self-interested, self-absorbed, completely rational calculating machine. In terms of our analogy to the twin-engine aircraft, we note that there is a profound difference between the human pilot with a mind and a heart, possessing both intelligence and emotions, and the auto-pilot that has neither mind nor heart because it is entirely programmed.

In the marketplace, the entrepreneur invests in two types of change: the introduction of

a new good or service and the penetration of a new market. In the workplace, the entrepreneur invests in three kinds of new things: the utilization of different materials in the production process, the introduction of a new production process, the development of a new way of organizing and managing the business enterprise [6]. At times, more than one type of change is necessary for success. For example, introducing a new product may require a change in the production process.

The masculine-feminine dimensions of human nature play a role here too. The masculine gender trait that rests on human individuality is vital to success in marketplace innovations because the marketplace is a competitive forum wherein individuals clash and compete for the rewards that follow from outperforming one's rivals. The feminine gender trait that is grounded in human sociality is vital to success in the workplace because the workplace is a cooperative environment wherein individuals must work together to accomplish their common objectives. Because entrepreneurial change often involves more than one type at once, both gender traits may be vital to the successful implementation of the entrepreneur's ideas.

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 surrender in the face of opposition. Entrepreneurs are visionary in the sense that they see opportunities 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 firms 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. 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. Bankruptcy relief is, in effect, the *subsidium* that helps the entrepreneur start over and is preferable to government taking charge of a failing business.

The entrepreneur is the pilot of the economy who decides where the economy is headed, following a specific flight plan, but capable of departing from that 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.

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. Schumpeter called this process "creative destruction" [7].

Subsidiarity and Private Business Alliances

From time to time cooperation among private business establishments that otherwise compete may be called for in order to address problems that cannot be handled by those firms operating independently. We refer to cooperation that results in the establishment of a separate administrative organization as a supra-firm alliance, whether that cooperation involves only the private sector or includes the public sector. Such alliances are characterized by the setting aside of the organizing principle of competition and the deliberate application of the principle of cooperation in a dynamic decision-making process that is not zero-sum or collusive in nature. Rather it is a positive-sum agreement that seeks to achieve gains for all of the parties involved whether they are directly represented in the alliance or not. Four examples help make this point, 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 [8].

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 three owners: Marathon Pipe Line LLC, Murphy Oil Corporation, and Shell Oil Company. 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 three owners understand that they can reduce the risks in offloading and transporting crude oil more effectively by working together than by operating independently [9].

The Business Software Alliance was established to combat piracy of software products. BSA members include among others Adobe, Apple, Intel, 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 [10].

PRIDE of St. Louis was established in 1972 as the first voluntary labor-management organization in the construction industry in the United States. Under the direction of a seven-person leadership team, PRIDE meets monthly with representatives from area architectural, engineering, and construction firms, the building trades, and the buyers of

construction services to identify stress points in the St. Louis construction industry in order to forge agreement on how best to improve productivity, cost-effectiveness, and work force training. PRIDE's ultimate objective is to ensure the continued growth and development of the construction industry in St. Louis for the benefit of all parties involved [11].

Conclusions

Several concluding remarks are warranted. First, the principle of subsidiarity plays an important role in economic affairs especially in the United States where government intervention is viewed with suspicion. Subsidiarity helps sort out the issue as to whether any limits that are to be imposed on competition or cooperation should be initiated in the private or the public sector, with private intervention preferred to public.

Second, by pushing responsibility and decision-making as close as possible to the economic agent, subsidiarity extends the democratic principle beyond the political order.

Third, subsidiarity operates mainly though not exclusively along the interface between private firms and organizations, on the one hand, and local, state, and federal governments on the other.

Fourth, subsidiarity takes on three distinct organizational forms: the supra-firm alliance discussed herein, the inter-firm partnership, and the intra-firm cooperative agreement. An inter-firm partnership is like an alliance in that it involves setting up some type of formalized, positive-sum, organizational arrangement.⁵ It differs in that it involves only two parties to the partnership, usually producer and supplier, in what is called a vendor partnership.

Fifth, though the persons and organizations that employ subsidiarity successfully might not be able to express the principle as clearly as Lincoln, those parties have an instinctive appreciation for it especially when the problems they face and share are so compelling that cooperation and collective action are essential. In this regard, subsidiarity is useful much more to persons who are practical and concrete than to those who are theoretical and abstract. In the end, subsidiarity is more about the *acting person* of personalist economics than the *rugged individual* of conventional economics.

Finally, it is instructive to repeat Becker's three insights regarding subsidiarity: (1) to make the principle of subsidiarity work effectively, human beings must be actively engaged in decision-making; (2) because human beings are so varied, notably with regard to their needs and wants, subsidiarity requires a limit on the size of the group or the scope of its operation; (3) keeping the group small helps make it more manageable.

There is one powerful lesson for the E.U. member states to be drawn from the U.S. experience. Ceding control of decision-making to Brussels can over time weaken the resolve and ability of member states, not to mention cities and provinces, to reclaim control in certain domains of decision-making regarding political and economic affairs such that the principle of subsidiarity no longer has any effective application. The social

order, in the extreme, will have collapsed leaving no effective intermediary bodies between the E.U. and private-sector organizations, crushing member states as truly functional elements.

Acceptance and application of the principle of subsidiarity should provide important assistance to European member states as they continue their transition from systems of governance based on the monarch and supreme ruler to governance based on democratic rule and human rights in a united Europe. The task will not be an easy one. Even 225 years after the signing of U.S. Constitution, the role of the 50 states still is being hammered out on such questions as marriage and the family, medical care, public education, immigration, and worker rights. The democratic process of forging agreement is messy and often contentious. It is the price we pay for democratic rule.

Notes

1. The principle of equivalence imposes a twofold obligation on the two parties to an exchange, whether that exchange takes place in the workplace or marketplace: (1) exchange things of equal value; and (2) impose equal burdens on one another.
2. Contributive justice imposes the following obligation on everyone in a group: insofar as a person receives benefits from membership in the group that person has an obligation to support the group.
3. Distributive justice requires the superior (person with greater responsibilities) to share the benefits and burdens of the group among its members in some equal or proportional manner.
4. Of the 27 countries that form the European Union, the following six are not included because data from this source are not available: Bulgaria, Cyprus, Latvia, Lithuania, Malta, and Romania.
5. 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. They are not addressed herein.

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