Editor's Note

The following essays were given at a symposium held at Christendom College on November 9, 1991 entitled: “Encounter or Conflict? The American Experience and the Social Teachings of the Catholic Church.”

One hundred years after Leo XIII’s Rerum Novarum, John Paul II issued his encyclical Centesimus Annus. The conference provided a unique opportunity to bring together in dialogue the American tradition of free market economy and the Catholic tradition of social thought.

Special thanks are rendered to the participants, the Honorable Frank Shakespeare who chaired the sessions and especially to the Lynde & Harry Bradley Foundation for the grant which made this conference possible.

Whereas at one time the decisive factor of production was the land, and later capital - understood as a total complex of the instruments of production - today the decisive factor is increasingly man himself, that is, his knowledge, especially his scientific knowledge, his capacity for interrelated and compact organization, as well as his ability to perceive the needs of others and to satisfy them.

- Centesimus Annus, #32

ENTESIMUS ANNUS EXPLODED ACROSS THE ROMAN SKY ON MAY 2, 1991, LIKE A sonic boom. Even the first fleeting sight of this new encyclical of Pope John Paul II led commentators around the world to predict that it would lift the worldwide terms of debate to a new level. Immediately evoking praise from both left and right, this encyclical seemed to some to be the greatest in the series of which it is a part. In reply to questions raised about political economy and free social institutions by the events of 1989, it is a classic restatement of Christian anthropology.

As Karol Wojtyla, Pope John Paul II had already done significant work in phenomenology, particularly in his book The Acting Person. The title of that book furnishes us a key to the nuanced ap-
proval that the Pope now gives to capitalism rightly understood - a capitalism he recommends to his native Poland, other formerly socialist nations, and the Third World. This approval surprised many commentators. *The London Financial Times*, for example, had predicted a ringing endorsement of socialism more advanced than that of Neil Kinnock, Willy Brandt, and José Gonzalez.

The Christian anthropology of Pope John Paul II, plus his acute observation of the way the world works, led him to other conclusions.

The success of *Centesimus Annus* is due, in any case, to its philosophical profundity. It comes at a time when the world has learned a great deal from the bitter ideological warfare of this bloodiest of centuries. Of the three great ideologies that put their mark upon the twentieth century, first national socialism failed, then communist socialism. From Eastern Europe, from the Third World, many are asking the Pope: What next?

Pope John Paul II now envisages a tripartite social structure, composed of a free political system, a free economy, and a culture of liberty. He says in effect that the great political debate of this century has ended in favor of democracy; and that the great economic debate has ended in favor of capitalism rightly understood. He insists that a formidable struggle await us regarding the culture of freedom. If we have the politics and the economics roughly straight, how ought we to shape our culture? How actually shall we live? These are the underlying questions *Centesimus Annus* poses for the next century.

OUTLINE OF *CENTESIMUS ANNUS*

Before plunging too far into the particulars, it may be well to fix in mind an outline of the six chapters of *Centesimus Annus*. First, John Paul II undertakes a “re-reading” of *Rerum Novarum*, whose hundredth anniversary he celebrates, which thus becomes an authoritative reinterpretation of *Rerum Novarum*. Although Leo XIII had predicted the “futility” of socialism, there was as he wrote no socialist state. His description of the consequences of socialist ideas was amply confirmed in the testimony of Eastern Europeans after 1989.

In chapter two, John Paul II takes up the “new things” that have happened since 1891 and that still affect us today. He analyzes the shortcomings of socialist anthropology, and describes the reforms that have transformed the “real existing capitalism” of the advanced countries from what it was in 1891.

In chapter three, Pope John Paul II lingers reflectively on the great events of “The Year 1989,” one of the great vintage years of human history, a watershed. He analyzes the reasons for the collapse of socialism and the lessons of worldwide importance to be drawn from it.

In chapter four, the Pope addresses the classic Christian theme of “private property and the universal destination of material goods.” There is some affinity between this tradition and Locke’s liberal doctrine of private property. In this, the longest part of the encyclical, the Pope examines existing political economies for their compatibility with the dignity of the human person. Here he develops his new approach to initiative, enterprise, profit, and capitalism itself.

Chapter five discusses the state and culture. Here the Pope stresses the limited state, democratic checks and balances, human rights, and constraints upon the state regarding welfare rights. He criticizes rather harshly the present excesses of the welfare state. He turns as well to the moral and cultural sphere, which is too often ignored: “People lose sight of the fact that life in society has neither the market nor the state as its final purpose.” (#49)

Here, too, are found the Pope’s comments on the formation of a “culture of peace.”

Chapter six, concluding on a theological note, looks to the future. We are, the Pope thinks, “ever more aware that solving serious national or international problems is not just a matter of economic production or of juridical or social organization.” Most problems today
also call for “specific ethical and religious values as well as changes of mentality, behavior, and structures.” (#60) The most perfect structures will not function if citizens do not have the relevant attitudes, habits, and behaviors.

In sum, *Centesimus Annus* calls for serious reform of the moral and cultural institutions of democratic and capitalist societies - including the institutions of the mass media, cinema, universities, and families - in order to make democracy and capitalism fulfill their best promises. Neither the preservation of free political space achieved by democracy nor the achievement of liberation from oppressive poverty wrought by capitalism are sufficient, alone or together, to meet the human desire for truth and justice. Only a vital cultural life, at its heights infused by God’s grace, can do that. Meanwhile, some two billion poor persons on this planet are not yet included within free polities or free economies, and their condition cannot be forgotten. Practical reforms of the international economic order are very much needed.

**A CHRISTIAN SOCIAL ANTHROPOLOGY**

With this overview of the whole terrain in our minds, it should now be easier to grasp the inner logic of *Centesimus Annus*. This logic begins with concrete inspection of the human being.

We are not dealing here with man in the “abstract,” but with the real, “concrete,” “historical” man. We are dealing with each individual.... The horizon of the church's whole wealth of doctrine is man in his concrete reality as sinful and righteous. (#53)

Already in 1969 in his philosophical work as Archbishop of Krakow, Wojtyla had laid out his vision of “the acting person” - a vision of liberty, responsibility, agency. As an originating source of action, the human person is capable of novel and creative conceptions, of invention, of initiative. The human person is not merely acted upon, shaped from the outside in, passive, conditioned, but is able to shape her or his own life, and is self-determining. Then in his first social encyclical in 1981, *Laborem Exercens*, John Paul II appealed to the anthropology implicit in the creation story of Genesis, the single best starting place for religious inquiry into the nature and causes of the creation of wealth. And this move from the acting person of phenomenology to the creative person of the biblical story (or the reverse) is a small step. The Creator made us in His own image, we are creators. We are acting persons; to think of ourselves as creators seems natural and effortless.

When the young Wojtyla as a student first wrestled with modern Western thinkers such as Scheler and Heidegger, he fully expected that he would be living the rest of his life under “real existing socialism.” In that ideology, the human person counted for very little. In actual practice, socialist work was wholly oriented toward the piling up of objects, of things, with no real regard for the subjectivity of the worker. After toiling for days on the freezing seas at the risk of their lives, fishermen would discover that the refrigeration unit of the storehouse in which their catch had been deposited was defective and that the entire fruit of their labors had spoiled. Steelworkers would see the iron beams on which they had labored pile up in huge lots and rust, because distribution systems had broken down. Under Marxism, it was in no one’s interest to see a product all the way through from conception to execution to delivery to satisfying use. Every person felt like a cog in someone else’s machine. A new type of alienation was experienced; in *Sollicitudo Rei Socialis*, his second social encyclical, Pope John Paul II described it - and described it precisely in contrast to a sense of personal action and initiative:

The right of economic initiative is a right which is important not only for the individual but also for the common good. Experience shows us that the denial of this right, or its limitation in the name of an alleged “equality” of everyone in society, diminishes, or in practice absolutely destroys the spirit of initiative, that is to say, the creative subjectivity of the citizen. As a consequence, there arises, not so much a true equality as a “leveling down.” In the place of creative initiative there appear passivity, dependence and submission to the bureaucratic apparatus which, as the only “ordering” and “decision-making” body - if also the “owner” of the entire totality of goods and the means of production, puts everyone in a position of almost absolute dependence, which is similar to the traditional dependence of the worker-proletarian in capitalism. This provokes a sense of frustration of desperation and predisposes people to opt out of national life, impelling many to emigrate and also favoring a form of “psychological” emigration.
Amid such sour alienation, Wojtyla’s emphasis on “the acting person” was entirely convincing. His emphasis on the creative subjectivity of the worker unsettled those Marxists who were assigned to do ideological battle with him. He turned the tables on them. He forced them to argue on Christian terrain. Thus, while he was the Archbishop of Krakow, the Pope came to perceive the front between Catholicism and Marxism, or more broadly, between humanism and socialism, to be a contestation over the meaning of man.

The fundamental error of socialism is anthropological in nature. Socialism considers the individual person simply as an element, a molecule within the social organism, so that the good of the individual is completely subordinated to the functioning of the socio-economic mechanism. Socialism likewise maintains that the good of the individual can be realized without reference to his free choice, to the unique and exclusive responsibility he exercises in the face of good or evil. Man is thus reduced to a series of social relationships, and the concept of the person as the autonomous subject of moral decision disappears, the very subject whose decisions build the social order. (#13)

This consideration of the erroneous anthropological nature of socialism takes Wojtyla beyond the horizon of the human individual. It introduces the larger context of social relations and social systems. Today, the church’s social doctrine focuses especially on man as he is involved in a complex network of relationships within modern societies. (#54)

Thus, the main lines of Centesimus Annus are clean and clear: the human as acting, creative person, capable of initiative and responsibility, seeking institutions in the three main spheres of life (political, economic, and cultural) worthy of his capacities - institutions that do not stifle or distort his dynamic nature. Not only is it wrong from the ethical point of view to disregard human nature, which is made for freedom, but in practice it is impossible to do so. Where society is so organized as to reduce arbitrarily or even suppress the sphere in which freedom is legitimately exercised, the result is that the life of society becomes progressively disorganized and goes into decline. (#25)

This is the lesson the Pope draws from the self-destruction of socialism.

There is a further lesson about human capacities for evil. A good Calvinist joke roughly expresses the Pope’s views: “Anyone who says that man is totally depraved couldn’t be all bad.” Analogously, the Pope: “Man tends toward good, but he is also capable of evil. He can transcend his immediate interest and still remain bound to it.” (#25)

Thus, respecting man’s limited but genuine goodness, the Pope urges us to see the common good as a “harmony” between “self-interest” and “the interests of society as a whole,” wherever this may be possible: “The social order will be all the more stable, the more it takes this fact into account and does not place in opposition personal interest and the interests of society as a whole, but rather seeks ways to bring them into fruitful harmony.” (#25)

One of the refrains of James Madison and Alexander Hamilton in The Federalist is that the perfect should not be the enemy of the good. In the same spirit, the Pope continues:

In fact, where self-interest is violently suppressed, it is replaced by a burdensome system of bureaucratic control which dries up the wellsprings of initiative and creativity. When people think they possess the secret of a perfect social organization which makes evil impossible, they also think that they can use any means, including violence and deceit, in order to bring that organization into being. Politics then becomes a “secular religion” which operates under the illusion of creating paradise in this world. But no political society - which possesses its own autonomy and laws - can ever be confused with the kingdom of God. (#25)

In this direct way, Pope John Paul II grasps the horns of the contemporary problem of “free persons and the common good.” It was relatively easy to determine what the common good was when, as of old, a single tribune of the people was charged with pointing it out. It is far more difficult when the freedom of each person to discern the common good is respected. Moreover, many
aspects of the good of a whole people are not achieved in concert or by single-minded direction from above; on the contrary, they are achieved by a large number of persons and groups independently performing their own tasks with excellence. For example, a sound family life is not achieved throughout society by *diktat* from above, but by each set of parents independently doing its best. And individual small businesses do not take commands from planning boards, but achieve their purposes within their own markets and in their own particular niches in their own way. Thus, in asserting the principle that the coincidence of private interest and public good, as of-ten as it can occur, achieves an outcome not at all bad for society, the Pope is being more than worldlywise. He is not only taking account of both the good in humans and its ordinary limits. He is also assuming a more subtle view of the common good than was possible in the less pluralistic past.

Personal action always entails risk, fault, and possible failure. A universe in which freedom is possible is open. Pope John Paul II regularly stresses the new things that happen in history; for example, the new ideas that emerged in the crisis faced by *Rerum Novarum*, and how much the world changed between 1891 and 1991. For him, history is a realm of trial and error, or costly mistakes and lessons hard earned. Moreover, the human person seldom experiences societies worthy of his capacities for freedom, for love, for truth, for justice. It is these that the human race seeks.

And at this point, the Pope passes from the analysis of personal action to the analysis of social structures and, in particular, economic systems.

Capitalism, Yes Papal social thought was once said to be too focused on the individual and to lack sophistication in the social sciences. *Centesimus Annus* intends to expand its analytic apparatus broadly enough to contrast, not just ideologies, but actual systems of political economy such as real existing socialism and real existing examples of democracy and capitalist economies.

With some sophistication, the Pope distinguishes the sphere of the “social” from that of the “state,” the civic society from government. He emphasizes the importance of free labor unions, citizens’ initiatives, and free associations. In a passage reminiscent of Tocqueville’s worries about the “new soft despotism” of democracies, he launches a systemic critique of “the social assistance state,” contrasting local “neighborly” work among the poor with the sterility of bureaucratic relationships. Whereas for centuries, the Catholic tradition has maintained a positive view of the role of the state in social life, John Paul II is especially careful and detailed in setting limits to the overly ambitious states of the late twentieth century.

There has never been any question in Pope John Paul II’s mind that democratic institutions, whatever their faults, are the best available protection for human rights. He now adds that capitalist virtues and institutions, whatever their faults, are also the best available protection for democracy.

To be sure, it was the famous “paragraph 42” that drew most of the attention in the world’s press. Until this point, the Pope has been dealing with the events that have changed the world since 1891, and especially the events of 1989, preparatory to offering his practical advice today. Thus, in paragraph 42 the Pope is at last ready to return for the third time to the underlying question being pressed upon him from Poland, Czechoslovakia, Hungary, the Third World, and many other quarters: After the collapse of socialism, what do you recommend? It is worth giving his answer in full, since the only sensible answer to the question requires some care with the highly disputed term “capitalism.”

Returning now to the initial question: Can it perhaps be said that after the failure of communism capitalism is the victorious social system and that capitalism should be the goal of the countries now making efforts to rebuild their economy and society? Is this the model which ought to be proposed to the countries of the Third World, which are searching for the path to true economic and civil progress?

The answer is obviously complex. If by capitalism is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting respon-
sibility for the means of production as well as free human creativity in the economic sector, then the answer is certainly in the affirmative even though it would perhaps be more appropriate to speak of a 

business economy, market economy or simply free economy. But if by capitalism is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality and which sees it as a particular aspect of that freedom, the core of which is ethical and religious, then the reply is certainly negative. (#42)

Point by point, this reply reflects the experience of those nations that since World War II have experienced both political liberty and economic prosperity. For example, Nazi totalitarianism had introduced gross distortions of human personality, and Germany after World War II had to undergo a major transformation which was not economic only, but necessarily political and moral, as well.” In the formerly communist nations, the situation today is similar. So also in the Anglo-American nations a structure of law has evolved over centuries, from which slowly emerged the political, economic, and cultural institutions that, together, frame “the free society.” Even such neoliberal thinkers as Friedrich Hayek in The Constitution of Liberty and Bruno Leoni in Freedom and Law stress these non-economic factors.19

In The Spirit of Democratic Capitalism (1982), I called the resulting Gestalt a “tripartite system.”

Democratic capitalism is not a “free enterprise system” alone. It cannot thrive apart from the moral culture that nourishes the virtues and values on which its existence depends. It cannot thrive apart from a democratic polity committed, on the one hand, to limited government and, on the other hand, to many legitimate activities without which a prosperous economy is impossible. The inarticular practical wisdom embedded in the political system and in the moral-cultural system has profoundly affected the workings of the economic system. Both political decisions and the moral climate encouraged this development. At various times in American history, both the political system and the moral-cultural system have seriously intervened, positively and negatively, in the economic system. Each of the three systems has modified the others.20

In the second part of paragraph 42, cited above, Pope John Paul II carefully orders the roles of all three systems - economic, juridical, and moral.21

As one part of the tripartite structure, capitalism rightly understood flows from Pope John Paul II’s anthropology. “Man’s principal resource is man himself. His intelligence enables him to discover the earth’s productive potential and the many different ways in which human needs can be satisfied.” (#32) Man, he writes again, “discovers his capacity to transform and in a certain sense create the world through his own work ... carrying out his role as cooperator with God in the work of creation.” (#37) And again, “Man fulfills himself by using his intelligence and freedom. In so doing he utilizes the things of this world as objects and instruments and makes them his own. The foundation of the right of private initiative and ownership is to be found in this activity.” (#43)

Moreover, the expression of personal creativity through work entails a social dimension: “By means of his work man commits himself not only for his own sake, but also for others and with others. Each person collaborates in the work of others and for their own good. Man works in order to provide for the needs of his family, his community, his nation, and ultimately all humanity.” (#43) In these texts, we see the elemental form of the Pope’s logic: from the image of the Creator endowed in each person to the work that flows from that source. Or again, from the fecund mind of the creative God to the exercise of human intelligence and choice in invention, initiative, and enterprise.

Already in Sollicitudo Rei Socialis, the Pope had seen that “the right to personal economic initiative” is a fundamental human right, second only to the right to religious liberty. Like religious freedom, economic initiative also flows from the “creative subjectivity” of the human person. This line of thought led the Pope to discern the role of enterprise in economic activity. Israel Kirzner defines enterprise as an act of discovery, an act of discerning either a new product or service to be supplied for the utility of others or a new way of providing the same.24 The Pope sees creativity at work in such acts of discovery and discernment. He even sees in them a new form of “capital.”

Although the origins of the word “capital” lie in a more primitive economic era, when capes referred to heads of cattle, and the major form of economic capital
lay in the ownership of land, the same word also suggests the Latin *caput* [head], the seat of that very creativity, invention, initiative the Pope sees in “creative subjectivity.” Indeed, the Pope himself alludes to the crucial shift from the primitive meaning of capital as land to its modern meaning as human capital, as we must now examine.

The Pope’s thinking on this point parallels that of Abraham Lincoln. In *Laborem Exercens*, the Pope had asserted “the principle of the priority of labor over capital” (where by “labor” he meant all sorts of work, even intellectual work, and by “capital” he meant material things). Similarly, in his First Annual Message to Congress on December 3, 1861, rephrasing some of the very words he had used at the Wisconsin State Fair in 1859, Lincoln also wrote:

> Labor is prior to, and independent of, capital. Capital is only the fruit of labor, and could never have existed if labor had not first existed. Labor is the superior of capital, and deserves much the higher consideration. Capital has its rights, which are as worthy of protection as any other rights. Nor is it denied that there is, and probably always will be, a relation between labor and capital, producing mutual benefits. The error is in assuming that the whole labor of community exists within that relation.

Yet Lincoln also saw that the great cause of wealth is human wit and grew quite eloquent in praising the role of invention in drawing wealth from the hidden bounty of creation. Similarly, he saw in the Patent and Copyright Clause of the U.S. constitution a remarkable incentive for inventors and creators - and thus one of history’s great boons to human freedom - since the prospect of the temporary ownership of ideas (of ideas as property) “added the fuel of interest to the fire of genius.”

The Pope writes:

> The earth, by reason of its fruitfulness and its capacity to satisfy human needs, is God’s first gift for the sustenance of human life. But the earth does not yield its fruits without a particular human response to God’s gift, that is to say, without work. It is through work that man, using his intelligence and exercising his freedom, succeeds in dominating the earth and making it a fitting home.

> In history, these two factors - work and the land - are to be found at the beginning of every human society. How ever, they do not always stand in the same relationship to each other. At one time the natural fruitfulness of the earth appeared to be and was in fact the primary factor of wealth, while work was, as it were, the help and support for this fruitfulness. In our time, the role of human work is becoming increasingly important as the productive factor both of non-material and of material wealth.

Work becomes ever more fruitful and productive to the extent that people become more knowledgeable of the productive potentialities of the earth and more profoundly cognizant of the needs of those for whom their work is done. (#31)

> Like Ludvig von Mises and Friedrich von Hayek, the Pope sees work as building up the tacit, experiential, evolving network of a “Great Society.” “It is becoming clearer how a person’s work is naturally interrelated with the work of others. More than ever, work is work with others and work for others: It is a matter of doing something for someone else.” (#31)

> In an odd way, then, modern capitalism centers more and more attention on caput, on factors such as knowledge, insight, discovery, enterprise and inquiry. “Human capital” becomes the major cause of the wealth of nations, more important even than natural resources. The cases of Japan and Brazil illustrate this point very nicely - one without natural resources but very wealthy, the other rich in natural resources but quite poor. Thus the Pope uncovers a new meaning of “capital.”

> In our time in particular there exists another form of ownership which is becoming no less important than land: the possession of know-how, technology and skill. The wealth of the industrialized nations is based much more on this kind of ownership than on natural resources. (#32)

> The Pope’s emphasis on the “community of work” also leads him to appreciate “entrepreneurial ability.” It is not so easy to discern just how to put together
human needs and human resources in a productive and efficient way; in many nations today, economic failure, not success, seems to be the rule. The Pope discovers in a kind of foresight, a key to avoiding failure:

A person who produces something other than for his own use generally does so in order that others may use it after they have paid a just price mutually agreed upon through free bargaining. It is precisely the ability to foresee both the needs of others and the combinations of productive factors most adapted to satisfying those needs that constitutes another important source of wealth in modern society. (#32)

Like Mises, the Pope stresses the social aspects of entrepreneurship. A free economic system is nothing if not a social system of exchange, based upon voluntary agreement. The Pope follows this logic closely:

Many goods cannot be adequately produced through the work of an isolated individual; they require the cooperation of many people in working toward a common goal. Organizing such a productive effort, planning its duration in time, making sure that it corresponds in a positive way to the demands which it must satisfy and taking the necessary risks - all this too is a source of wealth in today’s society. In this way the role of disciplined and creative human work and, as an essential part of that work, initiative and entrepreneurial ability becomes increasingly evident and decisive. (#32)

At this point, everything that the Pope has heretofore written about the acting person, about creative subjectivity, and about the fundamental right to personal economic initiative falls into place. He is in a position to render a systemic judgment:

This [modern economic] process, which throws practical light on a truth about the person which Christianity has constantly affirmed, should be viewed carefully and favorably. Indeed, besides the earth, man’s principal resource is man himself. His intelligence enables him to discover the earth’s productive potential and the many different ways in which human needs can be satisfied. It is his disciplined work in close collaboration with others that makes possible the creation of ever more extensive working communities which can be relied upon to transform man’s natural and human environments. (#32)

Nor does the Pope neglect the virtues required to accomplish this task:

Important virtues are involved in this process such as diligence, industriousness, prudence in undertaking reasonable risks, reliability and fidelity in interpersonal relationships as well as courage in carrying out decisions which are difficult and painful, but necessary both for the overall working of a business and in meeting possible setbacks. (#32)

The basis of “the modern business economy,” the Pope writes, “is human freedom exercised in the economic field.” (#32) This is a very important recognition. To papal approval for the free political life of democracy, it adds approval for a free economic life; and in both cases freedom implies accountability.

This approval is called for because today’s economic systems are different from yesterday’s:

It is important to note that there are specific differences between the trends of modern society and those of the past, even the recent past. Whereas at one time the decisive factor of production was the land and later capital - understood as a total complex of the instruments of production - today the decisive factor is increasingly man himself, that is, his knowledge, especially his scientific knowledge, his capacity for interrelated and compact organization as well as his ability to perceive the needs of others and to satisfy them. (#32)

The Pope even finds it useful to say a good word for profit as “a regulator of the life of a business”: “The church acknowledges the legitimate role of profit as an indication that a business is functioning well. When a firm makes a profit, this means that productive factors have been properly employed and corresponding human needs have been satisfied.” (#35) Like much good business writing today, the Pope also stresses
that profit “is not the only” regulator of the life of a business; “human and moral factors must also be considered, which in the long term are at least equally important for the life of a business.” (#35) Business writers stress the crucial role of “human relations” in firms; the Pope speaks of a firm as “a community of persons ... who forms a particular group at the service of the whole of society.” (#35)

THE LIMITS OF CAPITALISM

Nevertheless, Pope John Paul II does not forget the costs of a new modern capitalism based upon human creativity, whose other face is necessarily what Josef Schumpeter called “creative destruction.” The Pope writes that “the constant transformation of the methods of production and consumption devalues certain acquired skills and professional expertise, and thus requires a continual effort of retraining and updating.” (#33) He particularly worries about the elderly, the young who cannot find jobs, and “in general those who are weakest.” He refers to the vulnerable inside advanced societies as “the Fourth World.” He commends the unfinished work of Rerum Novarum, “a sufficient wage for the support of the family, social insurance for old age and unemployment, and adequate protections for the conditions of employment.” (#34)

The Pope is also eager to distinguish capitalism rightly understood from the “primitive” or “early” capitalism of which he does not approve. There are three situations of which he does not approve: (1) a capitalism that means the “domination of things over people;” (2) “situations in which the rules of the earliest period of capitalism still flourish in conditions of ‘ruthlessness’ in no way inferior to the darkest moments of the first phase of industrialization;” and (3) those systems in which “land is still the central element in the economic process, while those who cultivate it are excluded from ownership and are reduced to a position of quasi-servitude.” (#33)

By contrast, the Pope is in favor of “a society of free work, of enterprise, and of participation,” (#35) phrases that echo Lincoln’s praise of a society of free labor as opposed to slave labor. The Pope adds:

Such a society is not directed against the market, but demands that the market be appropriately controlled by the forces of society and by the state so as to guarantee that the basic needs of the whole of society are satisfied. (#34)

The words “appropriately controlled” exclude a pure version of laissez-faire, but are in line with the concept of the tripartite society envisaged in #42. “Society” is distinguished from “state;” the moral and cultural institutions of civic society are distinguished from the political organs of the government. Both the society and the state check, balance, and regulate the economy. That the Pope does not mean a socialist method of “control” is obvious from the preceding sentence, wherein the Pope is crystal clear, “what is being proposed as an alternative is not the socialist system.”

In the same spirit, the Pope has already said “that it is unacceptable to say that the defeat of so-called ‘real socialism’ leaves capitalism as the only model of economic organization.” (#33) But here as elsewhere his cure for faulty capitalism is capitalism of a more balanced, open, well-ordered kind. For he immediately proposes as a remedy:

It is necessary to break down the barriers and monopolies which leave so many countries on the margins of development and to provide all individuals and nations with the basic conditions which will enable them to share in development. This goal calls for programmed and responsible efforts on the part of the entire international community. Stronger nations must offer weaker ones opportunities for taking their place in international life, and the latter must learn how to use these opportunities by making the necessary efforts and sacrifices and by ensuring political and economic stability, the certainty of better prospects for the future, the improvement of workers’ skills and the training of competent business leaders who are conscious of their responsibilities. (#35)

Similarly, in #42, after having introduced capitalism rightly understood, the Pope again attacks “a radicalcapitalistic ideology.”

Vast multitudes are still living in conditions of great material and moral poverty. The collapse of the communist system in so many countries certainly removes an obstacle to facing these problems in an appropriate and realistic way, but it is not enough to bring about their solution. Indeed, there is a risk that a radical capitalistic ideology could spread which refuses even to consider these
problems in the *a priori* belief that any attempt to solve them is doomed to failure, and which blindly entrusts their solution to the free development of market forces. (#42)

By “radical capitalistic ideology,” he seems to mean total reliance on market mechanisms and economic reasoning alone. In the United States, we usually call such a view “libertarianism.” It is the view of a very small minority.

Curiously, however, the Pope prefers to call the capitalism of which he approves the “business economy, market economy, or simply free economy.” This is probably because of the European usage of the word “capitalism.”

My own reasoning in preferring to speak of “democratic capitalism,” rather than “the market economy,” is to avoid sounding libertarian, that is, narrowly focused on the economic system alone. For in reality, in advanced societies the institutions of the juridical, political order and the institutions of the cultural order today impinge greatly on, modify, and “control” the economic system. “Democratic capitalism” better captures this complexity.

The Pope also notes three limits to the principle of the free market: (1) many human needs are not met by the market; (2) some goods “cannot and must not be bought and sold;” and (3) whole groups of people are without the resources to enter the market, and need non-market assistance.

In addition to the primary human and Christian responsibility to be certain that the poor are assisted, the Pope sees many other moral imperatives surrounding and suffusing economic activities. Care must be taken not to injure the environment; the common good of all should be served and not violated; humans should be treated as ends - their dignity respected - not as means; efforts must be expanded to establish a framework favorable to creativity, full employment, a decent family wage, and social insurance for various contingencies. The tasks to be met by the good society are many. No system is as likely to achieve all these goods as a market system, but in order to be counted as fully good, the market system must in fact achieve them.

On matters of population growth, the Pope’s insight into human capital as the chief resource of nations is ripe for further development. Those who say dogmatically that nations of dense population must be poor, or that a large population causes poverty, have not thought carefully about Japan, Hong Kong, or the Netherlands. The Pope’s emphasis on the creative capacity of every human being explains why such densely populated countries can be wealthy. It suggests that each person can create more in one lifetime than he or she consumes. This is the very principle of economic progress. The cause of poverty is not “overpopulation” but, on the contrary, a system of political economy that represses the economic creativity which God has endowed in every woman and man. Nations ought not to repress that creative capacity.

THE LIBERATION OF THE POOR

*Centesimus Annus* has many practical implications. Although many primarily affect political and moral/cultural institutions, I would like to concentrate on its implications for liberating the poor from poverty.

Liberation theology in Latin America deserves credit for directing the eyes of the world to the attention of the world’s poor, especially in Latin America and Africa. But liberation theologians made a faulty analysis of the dynamics of poverty. Mostly, they relied on outmoded and dysfunctional marxist categories. In naming their dream of liberation “socialism,” they also miscalculated, so that events in Eastern Europe have now sent shock waves through their entire system of analysis. They tied their hopes to mistaken nineteenth century economic theories concerning the abolition of private property, class struggle, the labor theory of value, and the zero-sum game of “oppressors and oppressed.” Eastern Europeans by the millions, furthermore, rose up against the strategy of fulfilling the “basic needs” of the people - a strategy sufficient for animals or prisoners in jail, but intolerable to human beings. Thus, liberation theologians who once attributed Latin America’s poverty to excessive “dependency” on Europe and North America are now worried that Europe and North America will turn to the needs of Eastern Europe and leave Latin America in excessive “independence.”

In short, liberation theologians called attention to the problem. But they did little to solve it - and perhaps even delayed its solution for a generation. Nonetheless, the bitter condition of the poor must still be addressed.

Nearly one billion people still live under systems that repress their creative capacities and leave them in
destitution, that is, a poverty so biting that they are deprived of a normal daily caloric intake. The continued existence of such repressive regimes is a moral scandal. Since it can be ended, it must be. The key to ending it is contained in Centesimus Annus: those laws and institutions that repress the creative capacity of individuals must be uprooted. For example, in much of the Third World, although most of the poor are neither proletarians nor peasants but entrepreneurs, it is virtually impossible under current practices for poor persons to own safe title to property, to incorporate their own businesses cheaply and swiftly, to obtain legal credit at low interest rates, to complete primary school, to obtain basic technical training, or to obtain advice and support in making their businesses prosper.

In a word, traditionalist Third World systems are nearly as repressive as formerly communist systems in suffocating economic creativity.

Similarly, within advanced societies, neglect of important human factors in the design of “the welfare state” has dehumanizing effects upon welfare “clients.” In any society, some important fraction of the citizenry is bound to be without income, because of age (too old or too young), disability, illness, or ill fortune. Some will be permanently, some only temporarily, so. A good society will provide care for such persons. Preferably, as the Pope notes, this should be done according to the principle of subsidiarity, with an emphasis on local and “neighborly” assistance, through family, neighbors, churches, unions, fraternal societies, or other associations. One is reminded of Edmund Burke’s emphasis upon “the little platoons” of society.

Yet in large, continental, highly mobile societies such as the United States, and perhaps in all modern societies, local assistance will need to be backed up by a national safety net. This is not without risks of impersonality, exorbitant costs, and unintended effects upon behavior to which the Pope gives attention in #48. Those who are healthy between the ages of 18 and 64, are capable of remarkable initiative, self-development, and creativity; these capacities must not be stunted. Healthy human beings must not be reduced to semi-permanent dependency.

Since frictional unemployment accompanies a free market system, particularly under the pressures of international competition and rapid technological change, attention to the plight of the temporarily unemployed is especially necessary, in part to make certain that unemployment is temporary and as little damaging to families as possible. Much more foresight is now needed concerning technological obsolescence and changeover than in the past.

Both on the international and on the national level, problems of poverty will not disappear under capitalism. But they will certainly be more extensively diminished than under the two existing alternatives, socialism and the traditional Third World society. The combination of democracy and capitalism will not bring about heaven on earth. But it will do more to free the poor from poverty and tyranny, and to release their creativity, than any known alternative. To put it another way, the combination of democracy and capitalism is a poor system. But all the others are worse. This is hardly a ringing endorsement. But the real world is no utopia, and utopias have had a very bloody history in this century.

Even if it is said that Centesimus Annus does not represent “two cheers for capitalism,” for a realistic, biblically rooted system this side of the End Time, one cheer is quite enough.

Meanwhile, we have a lot of hard work to do to bring the poor billions of the Third World within the system of liberty and creativity. And a good deal to do to assist the poor in advanced countries, too. Just on this matter of poverty alone, without considering further problems in the political and moral/cultural order, our human and our Christian duty is far from done.
Notes

1 *Centesimus Annus* commemorates the one hundredth anniversary of Pope Leo XIII’s 1891 encyclical *Rerum Novarum* considered the beginning of modern Catholic social teaching. Since then the essential documents have been: Pius XI’s *Quadragesimo Anno* (1931); John XIII’s *Mater et Magistra* (1961) and *Pacem in Terris* (1963); Paul VI *Octogesima Andreaeius* and Pope John Paul II’s *Laborem Exercens* (1981), and *Sollicitudo Rei Socialis* (1987).


3 John Wyles wrote, “When all the speechmaking is done and the writings published, it is quite possible that the most prominent advocacy of socialist democratic values in Europe this year will not come from the likes of Willy Brandt, Felipe Gonzalez or even Neil Kinnock, but from Karol Wojtyla, the Polish Pontiff whose frequently controversial views suggest a quiet loathing for aspects of liberal capitalism ...”

“The Vatican is nervous about acquiring political labels, but John Paul II has long been one of Europe’s leading socialists ...”


5 Pope John Paul II says that *Rerum Novarum* “and the related social teaching of the church had far-reaching influence in the years bridging the nineteenth and twentieth centuries. This influence is evident in the numerous reforms which were introduced in the areas of social security, pensions, health insurance and compensation in the case of accidents within the framework of greater respect for the rights of workers.” (#15)

“*Rerum Novarum* points the way to just reforms which can restore dignity to work as the free activity of man. These reforms imply that society and the state will both assume responsibility, especially for protecting the worker from the nightmare of unemployment. Historically, this has happened in two converging ways: either through economic policies aimed at ensuring balanced growth and full employment or through unemployment insurance and restraining programs capable of ensuring a smooth transfer of workers from crisis sectors to those in expansion.” (#15)

6 David Little gives an account of this similarity: “‘God ... hath given the world ... to Mankind in common.’ Locke writes, and therefore all human beings share exactly the same common rights in using the earth to preserve life. Each individual is entitled to use what is needful so long as everyone’s equal need is respected: ‘The same Law of Nature, that does ... give us Property, does also bound that property too.’ Individuals must always observe the equal rights of others, they may not cause waste by taking more than they need, and they must leave ‘enough and as good ... in common for others.’

“The idea here is that because property originally belongs to all in common, all individuals by birthright possess certain prior ‘inclusive rights’ to it. In other words, everyone possesses an enforceable title, or what might be called a fair survival share, not to be excluded from access to the means of preservation and sustenance. Accordingly, all human beings have an inclusive natural right to use property for the sake of survival.” David Little, “A Christian Perspective on Human Rights,” in Abdullahi Ahmed An-Na’im and Francis M. Deng, eds., *Human Rights in Africa: Cross-Cultural Perspectives* (Washington: Brookings Institution, 1991), p. 74.

7 “The word of God’s revelation is profoundly marked by the fundamental truth that man, created in the image of God, shares by his work in the activity of the Creator and that, within the limits of his own human capabilities, man in a sense continues to develop that activity and perfects it as he advances further and further in the discovery of the resources and values contained in the whole of creation.” Pope John Paul II, *Laborem Exercens*, #25.

8 Pope John Paul II, *Sollicitudo Rei Socialis*, #15.

9 ‘Have we not already seen enough of the fallacy and extravagance of those idle theories which have amused us with promises of an exemption from the imperfection, the weaknesses, and the evils incident to society in every shape? Is it not time to awake from the deceitful dream of a golden age and to adopt as a practical maxim for the direction of our political conduct that we, as well as the other inhabitants of the globe, are yet remote from the happy empire of perfect wisdom and perfect virtue?’ *The Federalist Papers*, ed. Clinton Rossiter (New York: Mentor, 1961), #6, p. 59.
On this coincidence of self-interest and public interest, see the “accord” reached by Jacques Maritain, Yves R. Simon and Charles de Koninck as described in “When Personal and Communal Good are One,” in Michael Novak, Free Persons and the Common Good (Lanham, Md.: Madison Books, 1989), pp. 30-35.

“The Americans enjoy explaining almost all the actions of their lives by the principle of self-interest properly understood. It gives them pleasure to point out how an enlightened self-love continually leads them to help one another and disposes them freely to give part of their time and wealth for the good of the state.” Tocqueville, Democracy in America, tr. George Lawrence, ed. J. P. Mayer (New York: Anchor Books, 1969), p. 526.

Pope John Paul II points out the many social upheavals taking place in the time of Leo XIII: “The church found herself facing a historical process which had already been taking place for some time but which was by then reaching a critical point. The determining factor in this process was a combination of radical changes which had taken place in the political, economic and social fields, and in the areas of science and technology, to say nothing of the wide influence of the prevailing ideologies.

“In the sphere of economics, in which scientific discoveries and their practical application come together, new structures for the production of consumer goods had progressively taken shape. A new form of property had appeared - capital; and a new form of labor - labor for wages, characterized by high rates of production which lacked due regard for sex, age or family situation and were determined solely by efficiency, with a view to increasing profits.” (#4)

“The pope and the church with him were confronted, as was the civil community, by a society which was torn by a conflict all the more harsh and inhumane because it knew no rule or regulation. It was the conflict between capital and labor or - as the encyclical puts it - the worker question.” (#5)

12 “Following the destruction caused by the [Second World] war, we see in some countries and under certain aspects a positive effort to rebuild a democratic society inspired by social justice, so as to deprive Communism of the revolutionary potential represented by masses of people subjected to exploitation and oppression. In general, such attempts endeavor to preserve free market mechanism, ensuring by means of a stable currency and the harmony of social relations, the conditions for steady and healthy economic growth in which people through their own work can build a better future for themselves and their families. At the same time, these attempts try to avoid making market mechanisms the only point of reference for social life, and they tend to subject them to public control which upholds the principle of the common destination of material goods. In this context, an abundance of work opportunities, a solid system of social security and professional training, the freedom to join trade unions and the effective action of unions, the assistance provided in cases of unemployment, the opportunities for democratic participation in the life of society - all these are meant to deliver work from the mere condition of ‘commodity,’ and to guarantee its dignity.” Pope John Paul II, Centesimus Annus, #19.

The pope writes about “the tragic series of wars which ravaged Europe and the world between 1914 and 1945. Some of these resulted from militarism and exaggerated nationalism, and from related forms of totalitarianism; some derived from the class struggle; still others were civil wars of an ideological nature. Without the terrible burden of hatred and resentment which had built up as a result of so many injustices both on the international level and within individual states, such cruel wars would not have been possible in which great nations had invested their energies and in which there was not hesitation to violate the most sacred human rights, with the extermination of entire peoples and social groups being planned and carried out. Here we recall the Jewish people in particular, whose terrible fate has become a symbol of the aberration of which man is capable when he turns against God.” (#17)

The pope later refers to the Cold War: “Extremist groups ... found ready political and military support and were equipped and trained for war.... In addition, the precariousness of the peace which followed World War II was one of the principal causes of the militarization of many Third World countries and the fratricidal conflicts which afflicted them as well as of the spread of terrorism and of increasingly barbaric means of political and military conflict.” (#18)

14Pope John Paul II explains that Leo XIII anticipated “real existing socialism” in Rerum Novarum: “It may seem surprising that ‘socialism’ appeared at the beginning of the pope’s critique of solutions to the ‘question of the working class’ at a time when ‘socialism’ was not yet in the form of a strong and powerful state, with all the resource which that implies, which was later to happen. However, he correctly judged the danger posed to the masses by the attractive presentation of this simple and radical solution to the ‘question of the working class’ of the time - all the
more so when one considers the terrible situation of injustice in which the working classes of the recently industrialized nations found themselves.” (#12)

In describing today’s world, the pope takes many pains to distinguish reality from ideological claims, often pointing out concrete differences among systems in different parts of the world. On Latin America, e.g., see #20; on Asia #22; on the advanced democratic and capitalist countries, #19.

15Pope John Paul II cites Leo XIII’s teaching that it is a “‘natural human right’ to form private associations. This means above all the right to establish professional associations of employers and workers or of workers alone. Here we find the reason for the church’s defence and approval of the establishment of what are commonly called trade unions: certainly not because of ideological prejudices or in order to surrender to a class mentality, but because the right of association is a natural right of the human being, which therefore precedes his or her incorporation into political society.” (#7)

“Apart from the family, other intermediate communities exercise primary functions and give life to specific networks of solidarity. These develop as real communities of persons and strengthen the social fabric, preventing society from becoming an anonymous and impersonal mass, as unfortunately often happens today. It is in interrelationships on many levels that a person lives, and that society becomes more ‘personalized.’” (#49)

16 “By intervening directly and depriving society of its responsibility, the social assistance state leads to a loss of human energies and an inordinate increase of public agencies, which are dominated more by bureaucratic ways of thinking than by concern for serving their clients, and which are accompanied by an enormous increase in spending. In fact, it would appear that needs are best understood and satisfied by people who are closest to them and who act as neighbors to those in need.” (#48)

Compare Tocqueville: “I am trying to imagine under what novel features despotism may appear in the world. In the first place, I see an innumerable multitude of men, alike and equal, constantly circling around in pursuit of the petty and banal pleasures with which they glut their souls. Each of them, withdrawn into himself, is almost unaware of the fate of the rest. Mankind, for him, consists in his children and his personal friends. As for the rest of his fellow citizens, they are near enough, but he does not notice them. He touches them but feels nothing. He exists in and for himself, and though he may still have a family, one can at least say that he has not got a fatherland.

“Over this kind of men stands an immense, protective power which alone is responsible for securing their enjoyment and watching over their fate. That power is absolute, thoughtful of detail, orderly, provident, and gentle. It would resemble parental authority if, fatherlike, it tried to prepare its charges for a man’s life, but on the contrary, it only tries to keep them in perpetual childhood.

“Having thus taken each citizen in turn in its powerful grasp and shaped him to its will, government then extends its embrace to include the whole of society. It covers the whole of social life with a network of petty, complicated rules that are both minute and uniform, through which even men of the greatest originality and the most vigorous temperament cannot force their heads above the crowd. It does not break men’s will, but softens, bends, and guides it; it seldom enjoins, but often inhibits, action; it does not destroy anything, but prevents much being born; it is not at all tyrannical, but it hinders, restrains, enervates, stifles, and stultifies so much that in the end each nation is no more than a flock of timid and hardworking animals with the government as its shepherd.” Alexis de Tocqueville, Democracy in America, tr. George Lawrence, ed. J. P. Mayer (New York: Anchor Books, 1969), pp. 690-92.

17One “task of the State is that of overseeing and directing the exercise of human rights in the economic sector. However, primary responsibility in this area belongs not to the State, but to individuals and to the various groups and associations which make up society. The State could not directly ensure the right to work for all its citizens unless it controlled every aspect of economic life and restricted the free initiative of individuals.” (#48)

18 “In general, such attempts endeavor to preserve free-market mechanisms, ensuring by means of a stable currency and the harmony of social relations the conditions for steady and healthy economic growth in which people through their own work can build a better future for themselves and their families. At the same time, these attempts
try to avoid making market mechanisms the only point of reference for social life, and they tend to subject them to public control, which upholds the principle of the common destination for material goods.” (Centesimus Annus, #19)

Germany, after World War II, had to restructure its political, economic, and moral systems simultaneously. To emphasize both “markets” and political-moral constraints upon them, they called their new system the “social market economy.” For a report on its successes and failures, see: Alan Peacock and Hans Willgerodt, Germany’s Social Market Economy: Origins and Evolution (New York: St. Martin’s Press, 1989).

Among other tests of Hayek, see: “There probably never has existed a genuine belief in freedom, and there has certainly been no successful attempt to operate a free society, without a genuine reverence for grown institutions, for customs and habits and ‘all those securities of liberty which arise from regulation of long prescription and ancient ways.’ Paradoxical as it may appear, it is probably true that a successful free society will always in large measure be a tradition-bound one.” Friedrich A. Hayek, The Constitution of Liberty (Chicago: University of Chicago, 1978), p. 66.

Bruno Leoni was a great champion of custom, common sense, and trial and error, rather than of reformist legislation. He wrote, e.g.: “Legislation appears today to be a quick, rational, and far-reaching remedy against every kind of evil or inconvenience, as compared with, say, judicial decisions, the settlement of disputes by private arbiters, conventions, customs, and similar kinds of spontaneous adjustments on the part of individuals....

“Both Roman and English history teach us ... a completely different lesson from that of the advocates of inflated legislation in the present age.... Both the Romans and the English shared the idea that the law is something to be discovered more than to be enacted and that nobody is so powerful in his society as to be in a position to identify his own will with the law of the land. The task of ‘discovering’ the law was entrusted in their countries to the jurisconsults and to the judges, respectively.” Bruno Leoni, Freedom and the Law (Los Angeles: Nash Publishing, 1961), pp. 5, 10.


This tripartite division is foreshadowed in the three chapters into which the Constitution on the Church in the modern world, Gaudium et Spes, is divided.

22 “Peoples or nations too have a right to their own full development, which while including ... the economic and social aspects, should also include individual cultural identity and openness to the transcendent. Not even the need for development can be used as an excuse for imposing on others one’s own way of life or own religious belief.” (32)

“When individuals and communities do not see a rigorous respect for the moral, cultural and spiritual requirements, based on the dignity of the person and on the proper identity of each community, beginning with the family and religious societies, then all the rest - availability of goods, abundance of technical resources applied to daily life, a certain level of material well-being - will prove unsatisfying and in the end contemptible. The Lord clearly says this in the Gospel, when he calls the attention of all to the true hierarchy of values: ‘For what will it profit a man, if he gains the whole world and forfeits his life?’

“On the internal level of every nation, respect for all rights takes on great importance, especially: the rights to life at every stage of its existence; the rights of the family, as the basic social community, or ‘cell of society’; justice in employment relationships; the rights inherent in the life of the political community as such; the rights based on the transcendent vocation of the human being, beginning with the right of freedom to profess and practice one’s own religious belief.” Sollicitudo Rei Socialis, #33. For a discussion of economic liberty as the second liberty, see Michael Novak, “The Second Liberty,” forthcoming.

Kirzner describes his work as an “attempt to understand the systematic character of the capitalist process in terms of entrepreneurial discovery.” He says, “To understand the systematic forces as work in markets, we must introduce into our analysis the element of undeliberate but motivated discovery.”

“A misallocation of resources occurs because, so far, market participants have not noticed the price discrepancy involved. This price discrepancy presents itself as an opportunity to be exploited by its discoverer. The most impressive aspect of the market system is the tendency for such opportunities to be discovered.” Israel Kirzner, Discovery and the Market Process (Chicago: University of Chicago Press, 1985), pp. 14; 30.
25 “This principle directly concerns the process of production: In this process labor is always a primary efficient cause, while capital, the whole collection of means of production, remains a mere instrument or instrumental cause.” Pope John Paul II, *Laborem Exercens*, #12.


27 “I know of nothing so pleasant to the mind, as the discovery of anything which is at once new and valuable - nothing which so lightens and sweetens toil, as the hopeful pursuit of such discovery. And how vast, and how varied a field is agriculture for discovery. The mind, already trained to thought, in the country school, or higher school, cannot fail to find there an exhaustless source of profitable enjoyment. Every blade of grass is a study; and to produce two, where there was but one, is both a profit and a pleasure.” Lincoln, “Address to the Wisconsin State Agricultural Society, Milwaukee, Wisconsin,” September 30, 1859, in *Abraham Lincoln: Speeches and Writings 1859-1865* (New York: Library of America, 1989), p. 99.

28 On the patent laws, Lincoln says, “These began in England in 1624; and, in this country, with the adoption of our constitution [sic]. Before then, any man might instantly use what another had invented; so that the inventor had no special advantage from his own invention. The patent system changed this; secured the inventory, for a limited time, the exclusive use of his invention; and thereby added the fuel of interest to the fire of genius, in the discovery and production of new and useful things.” Abraham Lincoln, *Abraham Lincoln: Speeches and Writings 1859-1865* (New York: Library of America, 1989), p. 11.

29 In what Hayek calls the “Great Society,” the “products and services of each benefit mostly persons he does not know. The greater productivity of such a society rests on a division of labour extending far beyond the range any one person can survey. This extension of the process of exchange beyond relatively small groups, and including large numbers of persons not known to each other, has been made possible by conceding to the stranger and even the foreigner the same protecting of rules of just conduct which apply to the relations to the known members of one’s own small group”...

“The Great society arose through the discovery that men can live together in peace and mutually benefiting each other without agreeing on the particular aims which they severally pursue. The discovery that by substituting abstract rules of conduct for obligatory concrete ends made it possible to extend the order of peace beyond small groups pursuing the same ends, because it enabled each individual to gain from the skill and knowledge of others whom he need not know and whose aims could be wholly different from his own.” Hayek, *The Mirage of Social Justice*, pp. 88, 109.

And under the heading of “Great Society,” Mises says, “Society is joint action and cooperation in which each participant sees the other partner’s success as a means for the attainment of his own.

“The ascendency of the idea that even in war not every act is to be considered permissible, that there are legitimate and illicit acts of warfare, that there are laws, i.e., societal relationships which are above all nations, even above those momentarily fighting one another, has finally established a Great Society embracing all men and all nations. The various regional societies were merged into one ecumenical society.


30 See Michael Novak, *This Hemisphere of Liberty* (Washington, D.C.: The AEI Press, 1990), p. 51: “Those who wish to liberate human beings from poverty within their nation should look to its primary resource, the minds and spirits of the citizens at the bottom of society. The cause of the wealth of nations is the empowerment of such persons. To empower people is the indispensable first step toward rapid economic development.”

I expand this point elsewhere: “The heart of the capitalist idea is to begin at the bottom, by releasing the economic creativity of the poor. Several nations of the East Asian rim - Hong Kong, Singapore, Taiwan, and South Korea - observed the lessons to be learned from the Fabian socialism of India and from Communist socialism in China and North Korea. They also observed Japan. Like Japan, they had suffered in the war. They had extremely low standards of living. They had virtually no natural resources. Their populations, already large, were growing rapidly. Per capita income in Taiwan in 1945 was an incredibly low $70. By 1980, it had reached $2,280. The real GNP of Taiwan doubled every seven years - in 1980 it was eleven times greater than in 1952. Destitution is gone, and Taiwan's income distribution is among the most equal in the world. The case is similar in South Korea, racked not only by severe Japa-
nese repression during World War II but suffering horribly during the long Korean war of 1949-1953. In 1962, per capita income was $87. Twenty years later, it was $1,600. The average increase in real wages exceeded seven percent per year during the same twenty years.” Michael Novak, Will It Liberate? Questions about Liberation Theology (Mahwah, N.J.: Paulist Press, 1986), p. 90.

The Pope makes a similar point about unleashing the creative potential of the poor: “This is the culture which is hoped for: one which fosters trust in the human potential of the poor and consequently in their ability to improve their condition through work or to make a positive contribution to economic prosperity. But to accomplish this, the poor - be they individuals or nations - need to be provided with realistic opportunities.” (#52) And he speaks of the most important means of creating wealth: “In our time in particular there exists another form of ownership which is becoming no less important than land: the possession of know-how, technology and skill. The wealth of the industrialized nations is based much more on this kind of ownership than on natural resources.”

31 “The opening up of new markets, foreign and domestic, and the organizational development from the craft shop and factory to such concerns as U.S. Steel illustrate the same process of industrial mutation ... that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism.” Joseph Schumpeter, Capitalism, Socialism and Democracy (New York: Harper & Row, 1950), p. 83.

32In a speech at New Haven, Connecticut, in 1860, Lincoln said, “I am glad to see that a system of labor prevails in New England under which laborers can strike when they want to, where they are not obliged to work under all circumstances, and are not tied down and obliged to labor whether you pay them or not! I like the system which lets a man quit when he wants to, and wish it might prevail everywhere. One of the reasons why I am opposed to Slavery is just here. What is the true condition of the laborer? I take it that it is best for all to leave each man free to acquire property as fast as he can. Some will get wealthy. I don’t believe in a law to prevent a man from getting rich; it would do more harm than good. So while we do not propose any war upon capital, we do wish to allow the humblest man an equal chance to get rich with everybody else. When one starts poor, as most do in the race of life, free society is such that he knows he can better his condition; he knows that there is no fixed condition of labor, for his whole life. I am not ashamed to confess that twenty five years ago I was a hired laborer, mauling rails, at work on a flat-boat - just what might happen to any poor man’s son! I want every man to have the chance - and I believe a black man is entitled to it - in which he can better his condition - when he may look forward and hope to be a hired laborer this year and the next, work for himself afterward, and finally hire men to work for him! That is the true system.” Lincoln, “Speech at New Haven, Connecticut,” in Lincoln: Speeches and Writings 1859-1865, p. 144.

“Again: as has already been said, there is not, of necessity any such thing as the free hired laborer being fixed to that condition for life. Many independent men everywhere in these States, a few years back in their lives, were hired laborers. The prudent, penniless beginner in the world, labors for wages awhile, saves a surplus with which to buy tools or land for himself; then labors on his own account another while, and at length hires another new beginner to help him. This is the just and generous, and prosperous system, which opens the way to all - gives hope to all, and consequent energy, and progress, and improvement of condition to all.” Lincoln, “Annual Message to Congress,” December 3, 1861, in Lincoln: Speeches and Writings 1859-1865, pp. 296-97.

33Writing from Italy, for instance, Rocco Buttiglione explains that while in the United States, “capitalism is a thoroughly positive and respectable word,” in Europe “as a rule, we have a different perception of the same word. Here capitalism implies rather the exploitation of large masses through an elite of tycoons who dispose of natural and historical resources of the land and expropriate and reduce to poverty large masses of peasants and artisans.” Rocco Buttiglione, “Behind Centesimus Annus,” Crisis, Vol. 9, no. 7 (July-August 1991): 8.

34In addition, “democratic capitalism” has three other advantages. In the political order, it stresses the democratic ideal. It underlines the role of caput or “human capital” in the modern economic order. And it parallels closely the classic phrase “political economy.” (That phrase does not mean that the economy is “political,” and its parallel does not mean that capitalism is internally “democratic.”)


36For the most complete assessment of these problems see the sobering work by Hernando de Soto, The Other Path: The Invisible Revolution in the Third World, tr. June Abbott (New York: Harper & Row, 1989).

37See for instance Centesimus Annus, #49 and especially 13: “Apart from the family, other intermediate com-
munities exercise primary functions and give life to specific networks of solidarity. These develop as real communities of persons and strengthen the social fabric, preventing society from becoming an anonymous and impersonal mass, as unfortunately often happens today. It is in interrelationships on many levels that a person lives, and that society becomes more ‘personalized’. “(#49)

38One “task of the state is that of overseeing and directing the exercise of human rights in the economic sector. However, primary responsibility in this area belongs not to the state, but to individuals and to the various groups and associations that make up society. The state could not directly ensure the right to work for all its citizens unless it controlled every aspect of economic life and restricted the free initiative of individuals.

“Malfunctions and defects in the social assistance state are the result of an inadequate understanding of the tasks proper to the state. Here again the principle of subsidiarity must be respected: A community of higher order should not interfere in the internal life of a community of a lower order, depriving the latter of its functions.

“By intervening directly and depriving society of its responsibility, the social assistance state leads to a loss of human energies and an inordinate increase of public agencies, which are dominated more by bureaucratic ways of thinking than by concern for serving their clients, and which are accompanied by an enormous increase in spending. In fact, it would appear that needs are best understood and satisfied by people who are closest to them and who act as neighbors to those in need.” (#48