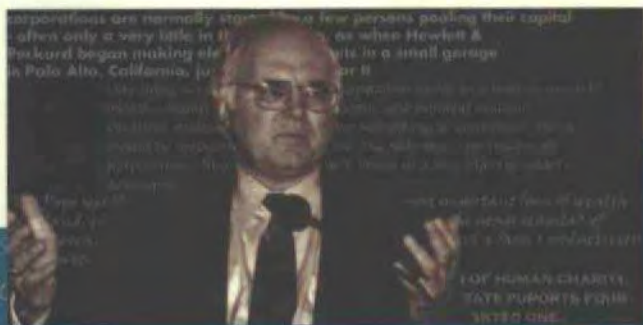


In Praise of the *Free Economy*



Essays by Michael Novak

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In Praise of the
Free Economy

Essays by Michael Novak

Edited by Samuel Gregg



1999

*...can it perhaps be said that, after the failure of Communism... that capitalism should be the goal of the countries now making efforts to rebuild their economy and society?

...If by "capitalism" is meant an economic system which recognises the fundamental and positive role of business, the market, private property, and the resulting responsibility 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*".

John Paul II, *Centesimus Annus*, Paragraph 42

In Praise of the Free Economy

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CIS Readings 10



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Contents

Foreword

Greg Lindsay

About the Author

Michael Novak: An Introduction

Samuel Gregg

I. Can a Christian Work for a Corporation?

II. Eight Arguments About the Morality of the Market

III. Wealth and Virtue: The Moral Case for Capitalism

IV. The Crisis of the Welfare State: Economics and Ethics

Index

Religion and the Free Society

An initiative of the Centre for Independent Studies

Foreword

Michael Novak is a pioneer. For over 20 years he has pursued what has been, until relatively recently, virtually a one-man crusade – the intellectual battle to convince his fellow Christians of all denominations of the merits of the market economy. Recognising the immense contributions that he has made to theological and philosophical thinking about the free economy and society over the past 20 years, the Centre for Independent Studies hosted a visit to Australia and New Zealand by Novak in 1995. During that tour, he presented over twenty lectures to audiences in Christchurch, Auckland, Wellington, Sydney, Canberra and Melbourne. He also had numerous meetings with political, business and religious leaders in both countries.

The CIS originally intended to publish a collection of the lectures that Novak delivered during his tour of Australia and New Zealand. Much of this, unfortunately, was scheduled for eventual publication in some of Novak's forthcoming books and this precluded their publication in Australia at that point in time. Now, however, with the CIS launching its *Religion and the Free Society* Program in December 1998, it was thought that the time was right to provide New Zealanders and Australians with an introduction to the essentials of Novak's theological-economic thought. In the near future, it will be augmented by the production of a range of writings by Australian and New Zealand theologians and economists under the auspices of this new CIS program.

One need not, it should be noted, be a Christian or even particularly religious to appreciate the arguments and reasoning underlying Novak's theological advocacy of entrepreneurship, the corporation, and the market as well as his penetrating critique of the modern welfare state. For while many of his ideas are couched in explicitly Judeo-Christian language, imagery and concepts, Novak is deeply interested – as all thinking Christians should be – in the questions raised and insights offered by thought originating from profoundly secular sources. Open-minded non-Christians of good will therefore have no reason to be wary. Indeed, most of Novak's criticisms are directed at those Christians who seem reluctant to remember Christ's warning that the Kingdom of God is not of this world.

During his 1995 visit, Novak commented on several occasions that he was struck by the degree of envy exhibited by many Australians and New Zealanders towards the materially wealthier elements of our societies. This was a phenomenon that Novak found deeply disturbing. Christians, he commented, have an obligation to help the poor raise themselves out of poverty and to care for those who are manifestly incapable of doing so. But, he noted, there is no reason why the enactment of this duty should be accompanied by a high degree of antagonism towards the economically better-off members of society. For this reason, Novak often made a point of reminding his audiences that, from a Judeo-Christian perspective, envy is a sin. Furthermore, Novak stressed, the material prosperity of some sections of our society should, in one sense, be irrelevant to Christians. What should really matter to them is that the poor's

living standards are raised. Of all the economic systems created by humanity, Novak stated, the market economy has proved most successful at attaining this end. It was, in his view, the best alternative for the economically poor.

In Australia and New Zealand, we are not accustomed to hearing theologians and religious leaders making similar remarks. The publication of these essays, we hope, will go some way towards redressing that imbalance.

Greg Lindsay
Executive Director

About the Author

Michael Novak holds the George Frederick Jewett Chair in Religion and Public Policy at the American Enterprise Institute in Washington, D.C. He graduated from Stonehill College in 1956 and the Gregorian University in Rome in 1958. He continued theological studies at the Catholic University of America and then at Harvard, where he received an MA in 1966 in History and Philosophy of Religion. He has held chairs at Harvard, Stanford, New York State University, Syracuse University, and Notre Dame. Mr Novak served as an adviser to the Ford and Carter Administrations. With the rank of Ambassador, he led the U.S. Delegation to the United Nations Human Rights Commission (1981-82), as well as the U.S. Delegation to the Conference on Security and Cooperation in Europe.



Mr Novak has written over 25 books on the philosophy and theology of culture. His major publications include *The Open Church* (1965), *Toward a Theology of Radical Politics* (1969), *The Experience of Nothingness* (1970), *The Spirit of Democratic Capitalism* (1982), *Freedom with Justice: Catholic Social Thought and Liberal Institutions* (1984), *Will it Liberate? Questions about Liberation Theology* (1986), *Free Persons and the Common Good* (1989), *This Hemisphere of Liberty* (1990), and *The Catholic Ethic and the Spirit of Capitalism* (1993).

Michael Novak: An Introduction

Theologian, philosopher, political activist, novelist, poet, diplomat, seminarian, journalist – Michael Novak is all of these and more. But perhaps Novak's greatest legacy will be the fact that he was the first contemporary theologian to have dedicated many years of his life to a serious and open inquiry about the nature of modern capitalism. Over the past forty years, it has become common for religious thinkers of all creeds and denominations to view the free economy in decidedly negative terms (Griffith 1984: 9-10). Michael Novak, however, is *the* theologian who first challenged this tendency in a systematic and profound way. Theological reflection upon economics will never be the same again. In recognition of his efforts to create a new discipline, that of the theology of economics, Novak was awarded the Templeton Prize for Progress in Religion in 1994, an award created as a counterpart to the other disciplines annually honoured by the Nobel Prize Committee. Past Templeton recipients include Alexander Solzhenitsyn (1983) and Mother Teresa (1973).

Novak's journey towards his vigorous theological affirmation of what he calls 'democratic capitalism', or, more simply, the free economy and society, is a tale in itself. Born in Pennsylvania in 1933 into a Roman Catholic family of Slovakian descent, Novak spent twelve years training to be a priest, a period which included two years of study at Rome's Gregorian University. A few months before he was due to be ordained, Novak decided that his vocation lay elsewhere and went to Harvard on a graduate fellowship in 1961. After covering the second and third sessions of the Second Vatican Council as a freelance journalist, Novak was appointed to a professorship in religious studies at Stanford in 1965.

Thereafter began Novak's long period of involvement with what has been variously described as the 'new left' or 'radical left'. Working on behalf of several liberal Democrat political candidates such as Sargent Shriver and George McGovern, and increasingly

concerned about America's deepening military commitment in Vietnam, Novak's views became, like many of his generation, radicalised in a left-wards direction. 'In the seminary', Novak remarks, 'I used to admire the intellectual leaders of the religious and philosophical left most of all' (Novak 1998: 259). From 1965 until the mid-1970s, however, Novak was one of the figures on the left most admired by many young Americans. He fervently denounced his compatriots' 'complacency' and 'bourgeois standards' and took his family to live in a 'total community' at the State University of New York. The extent of his intellectual and emotional commitment to the left was encapsulated in his book, *Toward A Theology for Radical Politics*, in which, among other things, Novak referred to himself as a 'democratic socialist' (Novak 1969). The book itself was often described as inspirational for Christian thinkers and justice activists who longed for an outright alliance between the churches and the left.

Doubts about the wisdom of his radical-left/collectivist dispositions, however, never quite disappeared from Novak's consciousness. In the early 1970s, he began to wonder if putting radical-left principles into practice would be truly in the polity's best interests. In his own words: 'I could see less and less reason for any serious mind to believe – against the overpowering evidence – that actual socialism matches socialist claims' (Novak 1998: 279-280). Novak also became acutely conscious that much Christian discussion of terms such as social justice was increasingly marked by what John Finnis – Professor of Jurisprudence at Oxford University, moral theologian, one of the first two laypeople appointed to the Pope's International Theological Commission, and an Australian – described as '...vagueness and empty cliché' and '...more and more open to be filled by any passing purpose and fancy' (Finnis 1976: 300).

Slowly, but truly, Novak turned to the long-overdue task of seriously evaluating the market economy from a perspective that was at once Christian and unclouded by what Novak describes as '...uncritically accepted information from highly partisan sources' (Novak 1998: 273). To embark upon such a project in the mid-1970s and early 1980s was, from a certain viewpoint, almost

foolhardy. For these were years in which Christian intellectuals throughout the world rushed to embrace the ideas of the radical left: when Archbishop Helder Camara of Recife in Brazil called upon Christian scholars '...to do with Karl Marx what St. Thomas Aquinas, in his day, did with Aristotle' (Camara 1978: 184); when poet-priests such as Ernesto Cardenal, a minister in Nicaragua's Marxist-Sandinista Government, declared in all seriousness that Castro's '...Cuba was the Gospel put into practice' (Riding 1983). Where precisely the Gospel requires governments to ban political opposition, prohibit free economic activity, imprison and torture its political opponents, and openly discriminate against those who are actively religious, Fr. Cardenal never quite specified.

Questionable intellectual rigour, nevertheless, did not stop many of Novak's colleagues from vigorously denouncing his foray away from left-radicalism. Novak vividly recalls that his '...first tentative criticisms of the left brought down upon my head passionate assaults, less given to answering my arguments than to questioning my morality' (Novak 1998: 273).

The ensuing years of searching and questioning, however, certainly yielded their fruit. In 1982, Novak published what many regard as his *magnum opus* – *The Spirit of Democratic Capitalism*. Having established himself as the world's foremost theological explorer and defender of the market economy, Novak became the focus of many efforts to encourage religious thinkers and leaders to acknowledge its material and moral benefits. He coordinated, for example, the production of informed and critical responses on behalf of concerned Christians to economic documents produced by American bishops and church justice commissions (Lay Commission 1984). At the same time, Novak was one of the leaders of the fight against those Marxist-influenced variants of liberation theology that entranced Christian intellectuals throughout the world, including Australia and New Zealand, in the 1970s and 1980s. The blunt comment of Cardinal Henri de Lubac, S.J., was representative of those who questioned the wisdom of this form of Christian political theology:

Here and there many [Christians]... are dazzled by the discovery of the vast universe; they are quite prepared

to admire everything about it without understanding it and have no critical resources (or what they believe to be such) except *against* the faith which nourished them. They have become blind to the unique contribution of Judeo-Christian revelation (Lubac 1984: 99).

But perhaps the crowning achievement of Novak's work was to prepare the ground for Pope John Paul II's 1991 social encyclical, *Centesimus Annus*. In this encyclical, the Pope stressed the virtuous nature of entrepreneurial activity, praised business and the market economy, recommended the free economy as a model for the former Communist countries and Third World nations, and underlined some of the modern welfare state's negative effects upon society (John Paul II 1991: #32, #42-43, #48). Of course, we will never know the precise degree of Novak's influence upon the preparation of *Centesimus Annus* (it was, one suspects, rather indirect). It is, however, almost impossible to imagine that this encyclical would have spoken so favourably of the entrepreneur and the market economy without Novak's previous ten years of in-depth theological exploration and advocacy of these themes.

Novak's long list of publications provides an indication of his polymath interests, ranging from metaphysics to the cultural meaning of sport. In this small collection of Novak's essays, however, we have attempted to capture the essence of his thinking about the free economy. It soon becomes apparent from reading these pieces that Novak is firmly in the tradition of St. Thomas Aquinas and Cardinal Newman. In other words, he is an orthodox Christian theologian-philosopher who is willing to learn from others while simultaneously exposing those with whom he is in dialogue to the richness of Christianity's 2000 year-old intellectual heritage. Novak is not a utilitarian or a libertarian. Indeed, he has strong reservations about many aspects of modernity and the Enlightenment (Novak 1995: 44-49). Nevertheless, Novak firmly believes that

[t]he long study by Ludwig von Mises' *Human Action*, and F.A. von Hayek's *The Constitution of Liberty* carry much ore that Catholic thinkers need to mine

concerning the economic workings of political and social freedom. Certainly, Catholic writers would begin from within a different horizon, and proceed from a different point of view, but profound intellectual interchange is indispensable to the progress of Catholic social thought (Novak 1986: 221).

From its very beginnings, Christianity has engaged in dialogue with secular thought. St. Paul's *Letter to the Romans*, for example, is not only one of the oldest extant Christian texts, predating the Gospels (Johnson 1976: 22-23), but synthesises the Wisdom tradition of post-exilic Judaism with Greek natural law philosophy. Novak's work continues this Christian tradition of dialogue, a tradition of wide and critical dialogue, a dialogue that aims at fuller understanding of the truth rather than conversation for conversation's sake. Hence, drawing upon the resources of figures such as Adam Smith, Alexis de Tocqueville and von Hayek, Novak has sought to deepen Christianity's understanding of the market economy and the free society (Novak 1984; Novak 1989).

Moreover, Novak also gently reminds us that Christianity's reflections on matters of political economy did not begin with liberation theology in the 1960s or even the various Christian Socialist movements that emerged at the end of the nineteenth century. Instead, he has sought to demonstrate that there is much in Christianity's 2000 year-old tradition of profoundly rigorous intellectual inquiry and its consequently vast deposit of accumulated knowledge that lends itself to providing profound and *positive* insights into modern capitalism. In this regard, Novak has transcended Max Weber's attempt to identify capitalism's rise with one version of Christianity – an attempt since comprehensively refuted as contrary to empirical evidence (Delacroix 1992; Samuelsson 1993). Instead, Novak focuses upon biblical themes such as the Genesis creation stories as well as the writings of scholars such as St. Gregory of Nyssa to demonstrate how ancient Christian doctrines such as original sin are of great contemporary relevance for understanding why the free economy is preferable to all the alternatives. Because, Novak argues, human beings are imperfect, it is foolish to attempt to build economic utopias in this world. The

genius of the market economy, in Novak's view, is that it recognises that humans are imperfect and seeks to direct this imperfection to the common good of all.

The essays selected for this publication seek to introduce audiences in Australia and New Zealand to the basics of Novak's theological-philosophical reflections about capitalism. The first article in this collection, 'Can A Christian Work for a Corporation?', was published in 1981. It sought to analyse and affirm, from a Christian viewpoint, one of modern capitalism's central 'building blocks' – an institution that, incidentally, continues to be the target of much criticism by Church justice activists in New Zealand and Australia (Secretariat of Bishops Committee 1992: 12). But, more importantly, this piece was published just one year before the appearance of *The Spirit of Democratic Capitalism*. Hence, although some of the figures cited in this article are somewhat dated, it outlines some of the primary arguments of this classic Novak text. Apart from identifying common problems with many Christian critiques of capitalism and the corporation, Novak presents some empirical *facts* about modern corporations. The implication, of course, is that some Christians need to acquaint themselves with such *facts* before launching into passionate denunciations of 'big business'. Novak then proceeds to delineate the key elements of what he believes is required by a 'theology of economics', before concluding with a concise exposition of why 'democratic capitalism' is superior to the alternatives. Not only does Novak believe that it is the best at inducing economic growth; he also stresses that 'democratic capitalism' protects and promotes human freedom in ways unparalleled in human history. This truth, to Novak's mind, has been largely overlooked by theologians as well as sociologists such as Weber who have studied the relationship between religion and economic life.

The second piece presented here, 'Eight Arguments about the Morality of the Market', is perhaps Novak's most precise moral defence of markets *per se*. Written just two years after Communism's collapse in the former Soviet Union and the promulgation of *Centesimus Annus*, it analyses ideas about the market developed in recent years by both Protestant and Roman Catholic intellectuals.

One immediately notices that these writers appear to have absorbed and accepted many of the points that Novak articulated ten years earlier. Of particular interest is Novak's focus on the human being as the *imago Dei*, endowed with the unique dignity of being a 'co-creator', an idea that, in turn, provides powerful theological underpinnings for entrepreneurship and economic creativity. It also implicitly challenges Christians to break away from static views of economic life and the idea that the production and distribution of wealth is a zero-sum affair. Novak concludes this piece by taking issue with one theologian's 'post-communist' criticisms of the market and, more specifically, market outcomes. In this regard, the article reflects the unfortunate fact that while many Christian thinkers are now willing to acknowledge the market economy's strengths, they seem reluctant to abandon the egalitarian-centric outlooks of the 1970s.

Our third Novak essay, 'Wealth and Virtue: The Moral Case for Capitalism', is best summarised as being rhetorical – in the classical sense of the word – because it attempts to communicate the underlying moral *ethos* and *inspiration* of the free economy. Novak frequently produces writings of this nature because he believes that democratic capitalism requires an *ethical vision*. Indeed, he sees no reason why collectivist thought should monopolise claims to idealism and moral rectitude in economics or, for that matter, any other field. In this connection, Novak reminds us – with statistical evidence – of just how much poverty has been (and continues to be) eradicated by the market economy. In light of Christ's commandment to help and love the poor, this is surely something that Christians should reflect upon.

The last of Novak's essays published here, 'The Crisis of the Welfare State: Economics and Ethics', does not focus upon the market economy in itself. Instead, Novak examines the state's role in a modern market economy and highlights a major problem that Western societies are now being forced to confront – the social dysfunctions encouraged by aspects of the modern welfare state. He highlights its often-enfeebling effects upon humans' capacity to be responsible for themselves, a capacity which, from a Christian perspective, is one expression of each person's dignity as a creature

possessing the spiritual qualities of reason and free will (Second Vatican Council 1965: #15-17). To support his arguments, Novak explores and elaborates upon various teachings articulated in *Centesimus Annus*. He then demonstrates their remarkable consonance with the thought of the nineteenth century French philosopher of democracy, Count Alexis de Tocqueville, who warned in his famous book, *Democracy in America* (1835 and 1840), that free societies had to be aware of their very real potential to degenerate into what Tocqueville called 'soft despotisms'. As Novak writes elsewhere, '[f]or Tocqueville, the rights of the free depend upon the virtues of the free...' (Novak 1989: 58). To this, one may add that Christianity is one of the few moral-cultural agencies left in the West today that still speaks, at least formally, the language of the virtues, be they theological or cardinal, a language whose roots are ultimately traceable to both Aristotle and the writers of the Hebrew canons: in other words, Athens and Jerusalem. In this respect, the long-term maintenance of truly free societies may actually depend on their Judeo-Christian civilisational heritage more than many people realise.

Many within the Australian and New Zealand churches will not like Novak's critique of the modern welfare state. Why? Because it, along with the other articles in this collection, implicitly raises serious questions about many of the policies that many Church justice groups in these countries have been advocating for the past 20 years – proposals that emphasise the state's role in dealing with economic and social problems, rather than looking to Tocqueville's 'free associations' and Edmund Burke's 'little platoons' to be the primary workers in this area. Unfortunately, as the recently deceased Anglican Primate of New Zealand and Polynesia, Archbishop Brian Davies, points out, '...the Christian left...generally avoid talk of personal moral responsibility and of deserving and undeserving cases...' (Davies 1998: 59). Instead, he notes, they seem '...driven more by utopian ideology than biblical theology...' and to have forgotten that '...the Kingdom of God [that Christ] spoke of was not the outcome of political action' (Davies 1998: 50,51).

Although Novak continues to have his critics (Roberts 1993: 64-82), many Christians throughout the world seem to have accepted

the validity of many of his arguments. This suggests, of course, that in pursuing his often-lonely intellectual path, Novak has overthrown many of the myths about the market economy that many Christians once considered axiomatic. It is a testimony to the truth that ill-conceived propositions can be discredited by the promotion of alternative ideas through good scholarship, persistent argumentation, and intellectual conviction. It is in the hope of encouraging similar developments in religious-economic thinking in Australia and New Zealand that the CIS presents this particular selection of Novak's writings.

Samuel Gregg

Resident Scholar

The Centre for Independent Studies

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IN PRAISE OF THE FREE ECONOMY

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I.

Can a Christian Work for a Corporation?¹

At first, I resisted mightily the title assigned to me: 'Can a Christian work for a corporation?' Then I came to see a certain humour in it. Irving Kristol suggested the appropriate answer to the outrageous question: 'No, only Muslims and Jews'. Of course, a larger and more complicated answer is also necessary. To come to it, much preparatory work must first be accomplished by many theologians. Here I can barely make a beginning.

Few theologians have yet attempted to reflect systematically on economic activities and economic systems. Although mature theologies of history and fledgling political theologies do exist, there is as yet no theology of economics. In particular, within the theology of economics, there exists no theological description and critical evaluation of democratic capitalism. Most theologians of the last two hundred years have approached democratic capitalism in a pre-modern, pre-capitalist, pre-democratic way; or they have been socialists, usually romantic and utopian rather than empirical. Lacking both a theology of economics and a theology of democratic capitalism, it is difficult indeed to launch a third-order inquiry into the theology of the corporation.

The corporation is an invention of democratic capitalism, or, to put it another way, the corporation is an invention of law that made democratic capitalism possible. Neither participatory democracy nor capitalism could exist without the corporation. The existence and practice of the corporation, furthermore, give the lie to all theories of democracy and capitalism that focus exclusively on the individual to the neglect of human sociality. The corporation is an expression of the social nature of humans. Moreover, it offers a metaphor for the ecclesial community that is in some ways more

¹ Originally published in Novak (1981: 1-32)

illuminating than metaphors based on the human body ('the mystical body') or on the family, the clan, the tribe, or the chosen people.

Paul Johnson has pointed out that the corporation originated in the twofold need of religious communities, whose purpose transcends the life of the individual, for independence and self-subsistence (Johnson 1980). Their motive was profit, in the sense that they needed to be sufficiently productive to have time for other things (prayer, honouring the dead) besides mere subsistence. They also needed independence and continuity over time. Pre-Christian religious communities in New Kingdom Egypt (around 1300 B.C.) owned property corporately, as did perpetual mortuary foundations in later Egyptian history. These Egyptian corporations influenced the incorporation of the late Roman Christian monastic communities which benefited from the land deeds pioneered by late Roman law. The Benedictine monasteries, in turn, provided economic models for the lay guilds of the fourteenth and fifteenth centuries, and the guilds' legal structure was imitated by the merchant adventurers of the sixteenth century. These merchants then developed the joint stock company to raise capital and to share risks. Thence came the modern corporation – a communal institution whose purposes and continuity must transcend the limits of individual life. The lineage of the modern multinational corporation may likewise be traced in legal and economic history to the internationalism of the Benedictines and other general congregations of religious men and women. As leisure is the basis of culture, so profits exceeding the needs of subsistence underlay the economics of the independent multinational religious orders. Often, to be sure, these self-sufficient congregations subsidised the time needed for prayer and study with the profits of their own excess productivity.

In a word, the modern economic corporation is a fruitful locus for theological inquiry, even though a full exploration of the theology of the corporation depends on a prior theology of democratic capitalism, which in turn depends on a prior theology of economics. Unfortunately, the necessary preliminary investigations cannot be set forth here; I hope to have an inquiry into such matters ready for

publication in a year or two.² The question addressed to me here is quite specific. It is also laden with denigrating bias.

Can a Christian work for a corporation? Under the logical paradigm for this question other vocations fall as well. Can a Christian work for the state? Can a Christian work in a university? Can a Christian be a bishop? Being a Christian is a high vocation – a vocation to grow in the holiness of Jesus Christ. Living before the age of democratic capitalism, Jesus did not work for a corporation. He did, apparently, work for a ‘small business’ as a carpenter. His disciples, working as fishermen, appear to have been mostly independent ‘small businessmen’ as well, and some presumably hired others to help them (Grant 1977: 11). To be an economic animal is as much a part of human nature as to be a political animal or a religious animal. Indeed, human life is inconceivable apart from the economic activities necessary to create shelter, gather food, build roads, and establish markets.

A majority of lay Christians in approximately 30 of the world’s 160 nations – including the United States, Japan, Hong Kong, Sri Lanka, and most nations of Western Europe – now live out their lives under systems at least reasonably analogous to democratic capitalism (Gastil 1980: 40-41). Democratic capitalism may be thought to have been distinguished fully from mercantilism with the publication of Adam Smith’s *The Wealth of Nations* in 1776. By ‘democratic capitalism’, I mean a society no longer structured like a traditional society, in Max Weber’s sense (Weber 1947: 341),³ but rather differentiated into three social systems: a political system, an economic system, and a moral-cultural system. As the church is

² Novak is referring here to *The Spirit of Democratic Capitalism* (Ed.).

³ Weber contrasted ‘traditional’ society with two other types *charismatic and legal-rational*: ‘In traditionally stereotyped periods, charisma is the greatest revolutionary force ... It may ... result in a radical alteration of the central system of attitudes and directions of action with a completely new orientation of all attitudes toward the different problems and structures of the “world” ’ (Weber 1958a: 363). ‘In legal [rational] authority, submission does not rest upon the belief and devotion to charismatically gifted persons, like prophets and heroes, or upon sacred tradition ... [It] is based upon an impersonal bond to the generally defined and functional “duty of office”. The official duty ... is fixed by rationally established norms, by enactments, decrees, and regulations’ (Weber 1958a: 299).

separated from the state, so also the economic system is somewhat independent of the political system, and the reverse. If we are ever to have a credible theology of work, theology of the laity, and theology of the world, we will have to construct a sound fundamental theology of economics and a critical theology of democratic capitalism. For our present purposes, however, we will be obliged to focus attention upon the actual *praxis* of economic corporations, within which sizeable numbers of Christians now perform their daily work and earn their daily bread.

The preliminary answer to the question, 'Can Christians work for a corporation?', must therefore be: in fact, many of them do. By corporation in this context is meant a legal body chartered and empowered by law to perform specifically designated functions under the restraint of law.⁴ The existence of corporations depends on the evolution of a body of law; on such differentiation of society as permits corporations a certain independence from the state; and on freedom to enter into social contracts which constitute the corporation as a legal person and active agent in history. In a more fundamental sense, corporations depend on at least an implicit metaphysics of 'emergent probability', as Bernard Lonergan has defined it (Lonergan 1965: 121-128); on the cultural evolution of notions of individual liberty, voluntary association, and formally free labour; and on the invention of systems of accounting, including double-entry bookkeeping.

Not all corporations are economic, of course. Political parties are incorporated, as are labour unions, universities, foundations, many charitable organisations, and many institutions of research, invention science, and the arts. The development of corporate law opened human history to the action of social institutions freely entered into. Where they appear, these 'mediating structures' which are larger than the individual but smaller than the state, make possible the flowering of human initiative, cooperation, and

⁴ The law is prone to emphasise that the corporation is a body chartered or recognised by the state; that it is a formal agreement, in the nature of a contract, among people joined in a common purpose; that it can hold property, contract, and sue and be sued in a common name; and that it has a length of life not subject to the lives of its members (Mason 1981: 396. See also Drucker 1946; Davis 1961; Berle and Means 1968; Barber 1970; Hessen 1979).

accountability (Berger and Neuhaus 1977).⁵ They are of considerable historical significance. The traditions on which corporate law is based are not universal; not all Christians live under such traditions today. Is it good for Christianity that such corporations exist?

1. *Six Sources of Distortion*

Some theologians today write as if corporations were evil forces and, indeed, as if democratic capitalism as a whole were incompatible with Christianity. Declarations by church leaders and theologians on secular matters are always worth attending to, but those who issue them are not always as wise as they imagine. Insight into the organisation of the secular world is not their strength. Even the most stalwart partisans can scarcely deny the great gap between the economic views of rank-and-file Christians and those of Christian leaders in the World Council of Churches, the National Council of Churches, and Catholic Justice and Peace Commissions.⁶

One explanation for this gap may be that the rank and file are less well educated and less knowledgeable about economics and Christianity than are the writers of ecclesiastical statements. Yet, given the rather broad distribution of education and experience among local clergy and laity today, such an explanation seems hardly convincing. An alternative explanation may be that church commissions are managed by a special social 'class' of Christians with its own understandable bias. What cannot be assumed in advance is that the writers of ecclesiastical documents have superior knowledge of economics and Christianity and their proper relation.

⁵ Berger and Neuhaus specifically exclude the large corporations from their list of mediating structures, because their emphasis is on the smaller social institutions. However, if we include the criteria of both size and degree of public/private character, most large corporations and all small businesses would qualify as mediating structures. In my view, even the largest corporations are significant defenses against the power of the state. In an extended but real sense, General Motors is a mediating structure (it is smaller than the Lutheran Church) and its individual units are as much mediating structures as parishes are.

⁶ Among representative documents one might consult, for Protestantism, Oxford Conference 1937 and General Board 1966. For Catholicism, Gremillion 1976. Questions are raised about this theology by, among others, Lefever 1979; Norman 1979; Novak 1979b: 60-64; and Novak 1979c: 56-61.

Their views, too, must face relentless questions. Church leaders are more likely to err in this territory than in most others (Wills 1964). The Gospel itself provides little guidance, as do theological traditions formed by traditional social orders. So church authorities have only a very weak authority for their pronouncements in this area. Moreover, church leaders and theologians may be among the least experienced and trained of all Christians to speak about economic matters in modern societies.

A theology of economics that wishes to be critical must therefore establish a point of view from which to submit to criticism all propositions, whatever their origin, about the relation of the Christian people to economics. A student of statements by church leaders and theologians on economic matters is likely to notice six specific kinds of ideology that recur without argument or justification.

a. The Ideological Use of Poverty

Poverty is highly praised in the Bible; so there is reason for church leaders to focus on it. But how? What is the meaning of 'poverty'? What is its religious meaning? What is its economic meaning? When the Protestants slammed the monastery doors behind them, as Max Weber describes (Weber 1958b: 121), was ascetic poverty in the name of Christianity to be imposed upon the peoples of the world? Modern churchmen and theologians seem to regard poverty not as a state to be praised but as a state to be eliminated. They often suggest that poverty is a scandal, that it is due chiefly to hard-heartedness or to exploitation by the rich. They seldom distinguish among theories of poverty (Bauer 1976: 31-38). They seldom recount its historical dimensions, its universal persistence, or the methods by which, at some times and in some places, it has been alleviated. They use the concept ideologically, not empirically. They seldom seem to recognise, as Talmon does, how the ideological use of 'poverty' lies at the origins of 'democratic totalitarianism' (Talmon 1960). The attempt to justify Stalinism in the name of a promised future social justice is all too common.

Is poverty more widespread today than in the time of Jesus? Are rates of infant mortality higher? Is life expectancy lower? Is

famine more common? Are there greater disparities between rich and poor than in the time of the Pharaohs and the Caesars? The sources of poverty may lie as much in nature and in culture as in economic structures. If the Kingdom of God in this world demands the elimination of poverty, it may also impose correlative demands on the production of wealth. Indeed, empirical and critical inquiry may suggest that the relevant intellectual problem is not poverty, which is widespread and immemorial, but how to produce wealth. If theologians are serious about poverty, they must develop an empirically founded theory about it.

b. The World View of Traditional Societies

Church leaders are tempted to think in terms appropriate to a traditional society rather than to a modern, differentiated, pluralist society (Little 1969). Thus they are more likely to imagine that the economic order should be suffused with charity and justice from above or from some central focus. They often imagine themselves to be prophets, utopians, or visionaries, improving society by their lights. Yet a modern social order must be pluralistic, permitting many different Christian, Jewish, Muslim, atheist, and other visions about its character. A modern social order necessarily regards church leaders as equal, but not privileged, participants in the common dialogue. Their visions of how justice and charity ought to be observed in the economic order do not, cannot, and should not determine the rules of the economic order, for others must also be free to work for their visions. The problem of order in a differentiated society has not been adequately addressed.

c. Naïvete about Transfer Payments

Led by the models of the Christian past that stressed paternalism and charitable giving, religious leaders are inclined to think that income gaps between humans are (a) unjust and (b) best eliminated by transfer payments. In other words, those who have will better help the poor if they give of their abundance to the poor. This assumption is doubtful (Bauer 1974: 15-18). Supposing that gaps between poor and rich are immoral, it does not follow that transfer payments are the most practical method of equalising incomes, or

that their use promotes independence and self-sufficiency. The effectiveness of such a remedy must be demonstrated, not asserted.

d. The Anti-Capitalist Bias of Intellectuals

Given the anti-capitalist bias of major American and European Catholic and Protestant theologians in this century (Hayek 1954, Mises 1972, Haag 1979, Novak 1979a), church leaders are vulnerable to systematic misperceptions about the nature of democratic capitalism. Few if any theologians or church leaders have set forth a theoretical understanding of democratic capitalism that is intended to be descriptively true. Commonly, they accept what Max Weber called 'kindergarten' notions about the system (Weber 1958b: 17). Before describing it accurately, they are already adversarial to it. Many speak of 'individualism', 'acquisitiveness', 'greed', 'self-interest', 'money', 'success', and 'competitiveness' as though these underlie the actual practice of democratic capitalism. For example, the Oxford Conference of 1937 described the system thus:

When the necessary work of society is so organised as to make the acquisition of wealth the chief criterion of success, it encourages a feverish scramble for money, and a false respect for the victors in the struggle, which is as fatal in its moral consequences as any other form of idolatry (Oxford Conference 1937: 104-105).

Do people in practice live this way? How many? A very great many people clearly do not. Perhaps theologians merely borrow from economists' descriptions of economic behaviour. But economists note explicitly that they are speaking abstractly about 'economic behaviour' and 'economic man', not about real persons enmeshed in the real social order. Because they commonly criticise economists for excessive abstraction, theologians themselves are bound to describe the real world of ordinary experience. For example, the basic institution of capitalism is the corporation – a social organism. Indeed, entire schools of criticism fault corporate life, not for an excess of individualism, but for an excess of social pressures toward conformism (Riesman et al. 1961; Wilson 1979). Church leaders are prone to rely on ideology rather than on an

accurate phenomenological description of the forms of fraternity, sympathy, fellowship, and cooperation practiced in democratic capitalist societies and in corporations (Novak 1978).

e. Guilt Mongering

The profession of church leaders and theologians requires them to criticise leaders of other institutions for falling short of religious ideals. But an economic order in a pluralist society cannot be based on the principles and ideals of any single church. Moreover, a just economic order in a pluralist society cannot be based solely on the concepts of virtue, innocence, and motivation taught by church leaders. Yet a democratic capitalist economic order does not assume that human beings are depraved, motivated by self-interest, acquisitiveness, and greed. Operating from rational self-interest, defined as each participant chooses through faith, reason and virtue to define it (Kristol 1976: 289; Wills 1978), many participants seek satisfactions from their work that are far from monetary, selfish, or materialistic. The social order is much enhanced by such choices. Philanthropy, the arts, education, research, and many other altruistic activities are expected to flower and do in fact flower under democratic capitalism.

f. The 'Constantinian' Temptation

In traditional societies, church leaders (whether in Rome or in Geneva) were able to impose their own values on the entire civil society. It is difficult for church leaders to play such a role within a differentiated society. Thus, in my view, there is often a secret hankering, a lingering nostalgia, for a planned society that would once again permit church leaders to be in alliance with civil leaders in suffusing an entire society with their values.⁷ This new

⁷ The hidden premise in many discussions of the free market and of 'private selfishness' is that public officials are by definition less selfish, more public-spirited. Little in the history of state tyranny and state bureaucracy supports this premise. One might distinguish, further, between two quite different types of rationality. One is the rationality that emerges as the calculus of individual choices in the market. The other is the rationality imposed by planners. Evidence suggests that, although neither form of rationale is complete, the former is more worthy of trust. Those who criticise the rationality of the market are usually utopian with respect to the rationality of planners.

'Constantinianism' appears today as socialism in totalitarian states and as statism in mixed economies. Democratic capitalism functions as three systems in one, and it is altogether proper for leaders in the moral system or in the political system to place constraints on the economic system. But those constraints must be as jealously watched as those flowing in other directions, lest one of the three systems become excessively subordinated to another. Leaders in each system tend to manifest typical biases. Theologians and church leaders must learn to detect their own characteristic bias. If evangelical leaders tend to be biased toward economic leaders, liberal churchmen tend to be biased toward the state. Each such bias may be dangerous to the common health.

In the spirit of these warnings, let us turn now to some matters of fact about corporations in the United States.

2. *Some Observations on Matters of Fact*

In order not to think of corporations in a merely mythical way, exaggerating their nature, scope, and relative position in society, it is important to grasp a picture of the factual context. Some of the numbers may be surprising to some readers. How many corporations are there in the United States? Some 2 million economic corporations now report to the Internal Revenue Service (US Bureau of the Census 1979). According to the Small Business Administration, there are an additional 13 million unincorporated small businesses (US Small Business Administration 1981: 1). Since the active labour force in the United States numbers nearly 100 million persons, there is, on average, one business corporation for every six or seven workers. Defined by the number of labourers employed by each enterprise, by the total assets of the enterprise, and by the annual sales volume of the enterprise, there are approximately 15 million small businesses in the United States and about 700,000 large businesses (Novak 1980a).

In recent years, the level of employment in industrial corporations has remained relatively static, or even declined, while the number of jobs in the service sector and in government employment has been growing rapidly. From 1969 to 1976, for example, nearly all the 9 million new jobs added to the economy

were added in government employment (3 million) and in small businesses mostly in the service sector (6 million) (US Small Business Administration 1981: 4). Employment in large businesses has been relatively static; the Small Business Administration claims that 87 percent of all new jobs in the private sector are created by small businesses (Novak 1980a). Many of these small businesses, from rock groups to boutiques, spring up among young adults.

Of the approximately 100 million Americans who work, some 16 million civilians work for federal, state, and local governments. Another 4 million work under contract to the government (Blumenthal 1979: 730; US Bureau of the Census 1979: 509,644). In addition, all those on unemployment compensation, social security, and welfare depend on the state for income. Some 46 million of the workers in the private sector work for small businesses such as taxi fleets, local dairies and bakeries, retail stores, car dealers, and restaurants (US Small Business Administration 1981: 3). The remainder, about 38 million, work for the estimated 700,000 large corporations, which thus employ on average 54 persons each. The New York Stock Exchange, the American Stock Exchange, and the Over-the-Counter market together list some 5,250 corporations whose shares are owned by the public and publicly traded. All these corporations rank as large businesses, although many of them employ only a few hundred workers.

Each year *Fortune* magazine lists the 500 largest industrial corporations in America. Over the years, corporations disappear and rankings change as new technologies spawn new giants and old technologies and methods of operation result in the decline or bankruptcy of others. Within the *Fortune* 500, the top hundred are truly giants; the fifth hundred rank dramatically lower in net worth, annual gross sales, and numbers of employees.⁸ Altogether, the top 500 corporations employ about 16 million Americans, about as many as those employed by the state, 4 million more than those who attend American colleges and universities as graduate students

⁸ In 1978, the top 100 firms held 67 percent of the assets of the *Fortune* 500, earned 66 percent of the net income, and employed 55 percent of the work force. The fifth 100 held 3 percent of the assets, earned 3 percent of the net income, and employed 5 percent of the workers (US Bureau of the Census 1979: 950).

TABLE 1: Seven Largest Organisations In Government And Business By Number Of Employees

<i>US Government</i>	
Executive Branch (total)	2,806,513
Dept. of Defence (civilians only)	971,968
US Postal Service	655,742
Veterans Administration	226,311
Dept. of Health, Education & Welfare	163,230
Dept. of Treasury	130,873
Dept. of Agriculture	115,078
Dept. of Interior	77,465
<i>Fortune 500</i>	
General Motors	839,000
Ford Motor Company	506,531
General Electric	401,000
ITT	379,000
IBM	325,517
Mobil	207,700
US Steel	166,848

SOURCES: For government, US Bureau of the Census 1979, table 464. For corporations, *Fortune* (1979: 270-71).

and undergraduates. The average work force of the top 500 corporations is 28,000 – approximately the number of students enrolled on the campuses of some major universities.

The smallest 200 of the *Fortune* 500 (by number of employees) employ under 13,000 persons each. The smallest of the 500 has only 529 employees. In other words, a majority of the *Fortune* 500 are of the size of universities, from 500 up to about 40,000 employees. Running a multinational corporation in the *Fortune* 500 is, in most instances, about equivalent to running a major university. No corporation in the *Fortune* 500 has as many employees as the US Department of Health, Education, and Welfare, counting its 800,000 full-time consultants. None has the number of employees of the Department of Defence, counting its civilian employees only. Only General Motors has more employees than the Postal Service. Table

1 contains these and other comparisons.

Most big corporations are smaller than many Roman Catholic dioceses: Syracuse has 421,023 Roman Catholics, Brooklyn 1,415,662. The total employment of all the *Fortune* 500 companies (16 million) is smaller than the number of Baptists (25 million) and less than a third of the number of Roman Catholics (50 million) in the United States. These corporations are also smaller than some national unions and smaller than many state universities. The largest state university system, the State University of New York, had 41,000 full-time employees and 227,000 full-time students in 1979, for a total of 268,000 – more than the employee total of the Mobil corporation or the US Veterans Administration (Novak 1980b).

Several other characteristics may be worth pointing out. These corporations are spread out over twenty-five industries, from aerospace to food processing to publishing. Although there is some variation from industry to industry and from year to year, the companies' average annual return on investment in 1978 was 14.3 percent (US Bureau of the Census 1979: 951).

Corporations are normally started by a few persons pooling their capital – often only a very little in the beginning, as when Hewlett and Packard began making electronic instruments in a small garage in Palo Alto, California, just after World War II – in order to bring some new idea to market. Practical insight is the first and indispensable constituent in the formation of a corporation; everything else depends on it. That idea cannot be realised in goods and services, of course, until someone puts up the money (capital in the secondary sense) to provide the instruments of manufacture and delivery. But money alone can be as easily lost as increased, invested productively as squandered. In addition to the money and prior to it is the *idea*, the organising original *insight*. In their book, *The Responsible Society*, Stephen Roman and Eugen Loebel have been among the most perspicacious in underlining the primacy of intelligence to the workings of democratic capitalism (Roman and Loebel 1977).

Although large corporations have been important since the founding of America – whether the British companies that founded early colonies or the organisations involved in hunting and

transportation, canal building, and railroads – they did not become a conspicuous part of the American landscape until after the Civil War and, even more so, after the creation of a national, transcontinental society in the twentieth century (Dulles 1959: 52). From the Revolutionary War, at least, Americans properly feared the large, all-encompassing state. For the last century, this fear of bigness has been redirected at the growing number of large corporations. General Motors, the giant among corporations with 839,000 employees, is much smaller than the federal government. Still, a single corporation employing more persons than are to be found in several of our states is a formidable economic force. Most large corporations are far smaller than General Motors. Of the *Fortune* 500, 419 have under 50,000 employees each, 300 have under 23,000 employees each, and the fifth 100 have under 8200 employees each. Yet even the smallest of the 500 (592 employees) faces enormous problems of innovation, continued vitality, and organisation in order to function at all. If one considers the problems of financing, management, quality, and morale in the running of a large university, or – at the other extreme – the problems of managing the truly gigantic workforces of the government, one may be able to appreciate the appropriate scale of corporate management. The vast majority of corporations are smaller than our large universities.

It is a common mistake to believe that almost anyone can manage a large corporation and to underestimate the relative scarcity of high talent. Literary intellectuals (including theologians) tend to value a type of intelligence, important for its own sake but not necessarily adequate to the demands of economic management (Lonergan 1965: Chp. 6-7). Indeed, the sort of work that intellectuals value most highly is often unlikely to be successful in the market. In much of our work, we reject the standards of the market in preference for judgments made in the light of intrinsic values of traditional weight. We tend to think that persons of industry and commerce exercise vulgar judgment. Yet creative practical intelligence must also go against the market; it claims to change the market. An economic system like ours rewards such dissent, anticipation, and innovation. It also penalises mistaken strategic decisions which can threaten to bankrupt even the largest companies.

At the time when corporate decisions must be made, it is not at all certain which of the competing possible decisions will be the correct one. Practical intelligence of a high order is often obliged to fight its way through legions of doubters who 'know' from the conventional wisdom that novel proposals cannot work.

Lenin once expressed the view that any citizen could manage the government, hence a socialist economy, just as any one of them could in a short time be trained to work as a postal clerk. Moreover, folklore is full of 'robber barons', 'fat cats', 'tycoons', and images of hereditary wealth and financial control, dating from an era prior to the managerial revolution. Corporate executives normally do not own the corporations that they manage (Greenewalt 1959; Berle and Means 1968). They are hired professionals, often of uncommon talent, and relatively mobile. The average length of service of a chief executive officer is about that of a professional football player: six years. The pay – in the *Fortune* 500 it averages \$400,000 per year – is about commensurate with that of top professionals in sports, entertainment, television journalism, or writers of best-sellers. It is rarely as dramatic as that of some television and movie producers, inventors, and others. About 3 percent of the 77 million American households receive a one-year income in excess of \$50,000. Only 275,000 persons, on average 5500 in each of the fifty states, receive a one-year income in excess of \$100,000 (US Bureau of the Census 1977: 1; US Bureau of the Census 1979: 442).

The imagery surrounding corporate leaders is mainly negative. Few people write or talk about 'fat cat' professors or journalists, athletes or actors, surgeons or lawyers, whose incomes are comparable or higher. In *The View from Sunset Boulevard*, Ben Stein has reproduced interviews that dramatise quite starkly the anti-business attitudes of the makers of television and the ideological distortions of their perceptions (Stein 1979).

In the past, the 'huddled masses' had reason to regard the 'robber barons' as their class, ethnic, and even religious enemies. Such passions have continued in more moderate form into the present. Religious and ethnic resistance to Roman Catholics and Jews in major corporations seems to have persisted until after World War II, but it has largely collapsed under the onslaught of talented

professional managers like Thomas Murphy of General Motors, Lee Iacocca of Chrysler, Irving Shapiro of du Pont, and many others.

Rather distinct from the class of professional managers is the smaller class of corporate executives who built or helped build corporations around their own inventions or insights. Such persons commonly benefit not only from salaries but also from their substantial interest in the company. Indeed, building a company, even a small company like a car dealership or a small chain of retail stores, is a far surer path to wealth than working as a professional manager.⁹ Ownership in the firm enables the owner to accumulate wealth as capital; it is not paid to him in salary.

The largest industries are in almost all cases the most heavily unionised. Their businesses usually pay the best pension benefits, medical benefits, vacation benefits, and the rest. Smaller businesses rarely have the cash flow, security, or permanence to do nearly as well.

In an interdependent world, economic enterprises – like churches, scientific associations, and other institutions – have become multinational. Within the United States, American firms compete with multinational corporations founded and based in other lands: British Petroleum, Volvo, Sony, Olivetti, Volkswagen, and many others. In 1970, the Department of Commerce surveyed 298 US firms with operations overseas (US Bureau of Economic Analysis 1970). Sperry Lea and Simon Webley note that, under a stricter definition of the term, there are only about 200 multinational corporations based in the United States, out of 300 worldwide (Lea and Webley 1973: 1). These US firms make roughly two-thirds of their sales in the developed countries and one-third in developing

⁹ In describing corporate wealth, socialists commonly fail to distinguish newcomers to wealth from older families of wealth. In each generation, new fortunes are being made (McDonald's, Xerox, Polaroid, Texas Instruments) as new technologies are invented and new services organised, while fortunes based on obsolete technologies are often dissipated. Downward mobility is an important feature of the system, and may have only a slightly smaller frequency than upward mobility. There is also a fascinating circulation of elites in all three systems (economic, political, moral-cultural). Each generation of successful people, moreover, has great difficulty in passing on its talents, skills, drive, motivation, and success to the next generation. It is easier to give children every advantage that money can buy than to pass on qualities of intelligence and character.

countries. Only a small fraction of total US economic activity is involved in the developing world.

Multinational corporations encounter many moral dilemmas in doing business overseas. In most traditional societies, bookkeeping is not public or bound solely by law. Custom and tradition have a familial base (Kirkpatrick 1979: 44). Many ruling families consider it a right, perhaps a duty, to take a percentage of all commercial transactions, much as the governments of developed states levy taxes. In developed societies, such payoffs are considered bribes and are both illegal and immoral. The effort by Westerners to impose Western standards of commercial behaviour on foreign authorities is not regarded as wise in all nations. Moral conflicts are inevitable in an interdependent world whose systems of law and morality are not as interdependent as its economic activities.

Accusations against the activities of Western corporations abroad demand case-by-case intelligent judgment (Barber 1970; Barnet and Muller 1974; Winter 1978). No doubt corporations are often wrong. No doubt, some have been unprepared for the complexities of their interaction with host cultures, finding that methods and attitudes suited to the West can have unfortunate effects abroad. Yet the absence of investment from abroad may be more morally damaging to traditional societies than the activity of multinational corporations. The clash between modern and traditional societies would be ridden with moral conflict even under the most favourable conditions.

One thing is certain. Democratic capitalism needs to attend as much to moral-cultural systems as to economic and political systems. On these matters, theologians have something to contribute. But it would be arrogant to think that we, like Solomon, can resolve all perplexities. Should corporation X invest in a new plant in underdeveloped nation Y? Does it have the human resources to do so with cultural wisdom? What ought a Christian corporate executive to consider in making such a decision? We do not at present, I fear, offer much light. Why not?

3. Elements of a Theology of Economics

Theologians have little to say about the practical dilemmas of

corporate executives for several reasons, but one significant reason is that the theology of economics is at present the least sophisticated branch of theological inquiry. Few theologians who address the social order (for example, Moltmann or Tillich) have paid extensive attention to economic matters. The official documents of the churches are notably strong on moral vision, much less so in describing economic principles and realities. The coming generation will inherit as a task the need to create and to set forth systematically a theology of economics that deals critically with several key concepts such as those that follow.

a. Order

There is a difference between the way a traditional society orders the cosmos of human meaning (political, economic, moral) and the way a modern democratic, pluralistic, capitalist society orders meaning (Little 1969). To judge modern democratic, pluralistic, capitalist societies by the norms of traditional societies is to apply an inappropriate category. Those who do so often falsely describe the risk, danger, and terror inherent in personal freedom – ‘the experience of nothingness’ (Novak 1970) – under pejorative notions like alienation, anomie, and privatisation. Order in a non-traditional society necessarily seems like disorder to those whose ideal is the order of a traditional society. Socialist societies like Cuba offer a single system of meaning (‘justice’) far closer to that of traditional societies than to that of a fully differentiated modern society.

b. Emergent Probability

Many theologians are fascinated by the future, by utopian thinking, by prophecy, and by the myth of the *avant-garde*. Moreover, the phrase ‘the economy of salvation’ suggests to some that history moves forward by a kind of moral imperative (and inexorable necessity) toward self-improvement. By contrast, a theology of economics requires a critical philosophy of history. A promising candidate appears to be the theory of ‘emergent probability’ sketched by Lonergan (Lonergan 1965): a world order moved neither by necessity alone nor by human will alone, neither wholly open to intellectual insight nor wholly closed to it, neither guaranteeing that the future

will be better than the present nor ruling out all hope of some improvement. A theology of emergent probability contrasts with Moltmann's utopian theology of hope (Moltmann 1967).

c. Sin

Any social order that intends to endure must be based on a certain realism about human beings and, therefore, on a theory of sin and a praxis for dealing with it. However sin is defined, its energies must be given shape, since sinful energies overlooked in theory are certain to find outlets in practice. Thus, some hypothesise that democratic capitalism is based on self-interest, greed, acquisitiveness, and egotism.¹⁰ Others hypothesise that socialism – particularly in its egalitarianism – is based on envy and resentment (Schoeck 1969; Kolakowski 1978). Since no realistic social order can be based on expectations of heroic or even consistently virtuous behaviour, it seems that a realistic social order must be designed around realist ideals. Particularly in a pluralist social system, the rules should not be so defined that every participant must, in effect, be a saint.

d. Practical Wisdom

The practical world depends as much on insight and intelligence as does the intellectual world. Certainly the economic system does. The role and conditions of insight in particular societies need close and concrete study.

e. The Individual Person

The most distinctive contribution of Judaism and Christianity to social theory is the identification of the person's conscience as a major source of social energy. Not all energy comes from authority, as the ancients held. Nor from social structures, as the Marxists

¹⁰ Tawney is typical in this regard: 'The quality in modern societies which is most sharply opposed to the teaching ascribed to the Founder of the Christian Faith ... consists in the assumption ... that the attainment of riches is the supreme object of human endeavour and the final criterion of human success ... Compromise is as impossible between the Church of Christ and the idolatry of wealth, which is the practical religion of capitalist societies, as it was between the Church and the State idolatry of the Roman Empire' (Tawney 1926: 234-235).

hold, or from historical necessity and class struggle. The individual person is an originating source of insight, decision, and action.

f. The Community

Human experience is by destiny familial. Primordially, it has been centred in family, clan, tribe, people. As the institutions of social organisation have become differentiated, human sociality has also moved outward into an array of institutions: government agencies, political parties, unions, corporations, factories, schools, universities, diverse churches, associations, and others. In the economic sphere today, sociality seems far more prevalent than individualism. In democratic capitalist nations, various social organisms, including the business enterprise and the corporation, have replaced or supplemented old loyalties to family and clan. Some people today are closer to their colleagues in the workplace than to their family. The business corporation is a relatively new organism in social history. It is perhaps the best secular analogue to the church. Both are legal persons, unitary beings, constituted by voluntary contract, animated by social purposes, and subject to pervasive disciplines. The community and sociality that corporations make possible within themselves and in the surrounding social field deserve concrete description.

g. Distribution

The classic moralist's principle for the economic order is distributive justice. For traditional societies, which had no moral decision to make about growth, distributive justice was a first principle. Such societies were mostly static with a finite and already known supply of worldly goods, so traditional ethicists quite properly concentrated on how the store of goods ought to be distributed. Until the rise of democratic capitalism, a permanent condition of poverty was seen as a given. In the 1780s, four-fifths of all French families spent 90 percent of their income simply buying bread – only bread – to stay alive. In 1800, fewer than 1,000 people in the whole of Germany had incomes as high as \$1,000. Yet in Great Britain from 1800 to 1850, after the sudden capitalist take-off that had begun in 1780, real wages quadrupled, then quadrupled again between 1850 and

1900 (Johnson 1977; Johnson 1979). The world had never seen anything like it. After World War II, dozens of other nations used the ideas of democratic capitalism to experience even more rapid growth. The fact that economic growth has suddenly become a matter of human freedom has made moral decisions about growth and productivity prior, both logically and practically, to questions of distribution. What is not produced cannot be distributed, and choices about production condition choices about distribution.

h. Scarcity

The debate about the limits of growth involves three separate issues. One is a question of fact and empirical probability; here the critics of the Club of Rome seem to be gaining the upper hand. The second concerns the role of technology and science. It seems odd, so soon after the disastrous struggles between religion and science in preceding generations, that many theologians such as Moltmann should be trying to enlist the Christian churches in opposition to growth (Moltmann 1977). The resistance to growth is doubly odd, since technology and science can yet turn in many new directions, depending largely on the wisdom, needs, and investments of individuals and societies. Slowdowns in some directions do not entail slowdowns in others. The third issue in the debate over growth concerns the basis of democratic capitalism. Some people hold that it is grounded on an assumption of plenty, but nothing could be further from the truth. As Peter Clecak shows, the distributive ethics of socialism depend on economic abundance and become irrelevant under conditions of scarcity (Cleckak 1977: 153-155). A market system, by contrast, is designed to deal efficiently with either scarcity or abundance. A no-growth, limited economy of scarcity is not at all incompatible with a market system; scarce items have long been allocated by markets. Scarcity can impose cruel dilemmas, but it does not make democratic capitalism impossible. Indeed, democratic capitalism – and modern economies – were invented as methods for escaping the Malthusian trap of scarcity.

4. Democratic Capitalism and the Corporation

Although space does not allow a section on the theology of

democratic capitalism, a few words of elucidation are nonetheless necessary. For to encourage young Christians and Jews to turn their idealism and longing for service to the corporate world, without at the same time offering them a reason why democratic capitalism is theologically acceptable or even good, would be to plunge them into bad faith. Put with exquisite succinctness, that reason is the connection, in practice and in theory, between political freedom and democratic capitalism.

Even those monks of old who washed dishes, did the laundry, swept the floors, pruned the living vines in the vineyards, milked the cows, or copied manuscripts in tedious labour knew that they served the Kingdom of God and the freedom of mankind. So also it is with the contemporary labourer, however humble, in the contemporary corporation, however modest or even frivolous its product. To serve human needs, desires, and rational interests is also to serve human freedom and God. Only if we can make an affirmative theological judgment about democratic capitalism, can we develop a plausible theology of the lay world and a theology of work. Without such an affirmative judgment, no one is in good faith except those determined to destroy an evil system.

In this respect, we need to recognise that political and economic freedom are closely related. Human freedom seems to depend on a differentiated system in which the economic system is relatively free, the political system is relatively free, and the moral-cultural system is relatively free. The relationship appears to be theoretical as well as factual, for it is difficult to see how a political system can be free if individuals are not free to make their own economic decisions. If printing presses are not free of government economic controls, for example, it is not likely that ideas can circulate freely.

Under democratic capitalism, accountability must be clearly distinguished from subordination. The churches must not, through institutional controls, be made subordinate to the state in their decisions of conscience. The political system must not be subordinated to economic institutions. The economic system must not become subordinate to the political or religious system. To return to state or church control over economic behaviour would be to return to mercantilism or, as Weber called it, 'patrimonial' capitalism:

a collapsing of the tripartite differentiation of the economic, the political, and the moral-cultural systems. The three interdependent but autonomous systems of democratic capitalism are accountable to each other and to the citizens through whom each has its historical existence. But no one of them can be permitted to become subordinate to the other two.

Short of subordinating the other two to itself, each of the three systems may properly – and often must – criticise the other two, inject new ideas into them, and impose many legitimate sanctions on them. *Laissez faire* is impermissible for any of the three systems. Those who believe in a strong state, active even in the economic sphere, must be especially alert to the dangers of confusing accountability with subordination. A great deal can be accomplished through persuasion, public criticism, and public protest. Each of the three systems is vulnerable to public opinion, for each depends for its daily functioning on a good reputation and a favourable climate of ideas. Each must appeal to voluntary support from citizens. Each must be accountable to its own internal system and, on the basis of autonomy and equality, to the other two systems from which it has been differentiated while by no means being invested with *carte blanche*.

Utopian theories of freedom are out of place in the real world. No perfectly free, just, or rational society ever has existed or ever will exist. This fact and this expectation are wholly consistent with Christian conceptions of original sin and with the non-utopian political philosophies of the West. Democratic capitalism is not without sin. Yet no one can plausibly claim that the tripartite system of democratic capitalism is inferior in its political freedoms, broad distribution of benefits, and productive achievements to any historical alternative yet experienced by the human race. The system need not fear empirical comparisons with traditional and socialist societies.

The largest proportion of American workers, among them many Christians and Jews, work for small corporations. In so doing, the workers build the material economic base on which a society of freedom depends for its political and cultural freedoms. Another large proportion of Christians and Jews work for so-called large

corporations, most of which are actually modest in size. These workers, too, serve freedom as well as their own rational self-interest. About 16 million Americans work for the *Fortune* 500 corporations, and of these some 8.8 million work for the hundred largest corporations. Although these giants carry with them the dangers of great size, their size is absolutely essential to the task set before them. The airliners that carry most of us to meetings could not have been built by small corporations. Nor would such corporations be less dangerous if they were owned and operated by the state. Indeed, it is almost certain that if owned by the state, such corporations would perform far less humanely and far less efficiently than at present – and would also run deficits. Those with experience of government-owned and government-controlled enterprises have observed the morale and performance problems prevalent in such industries.

What Christians and Jews who labour for large corporations most lack is an intellectual and moral theory that: (1) expresses the high spiritual vocation their work serves; (2) articulates the ideals of democratic capitalism so that they can judge and improve on their present practice; and (3) provides concrete guidance in the many decisions they must make every day. Executives have considerable discretion over their decisions. With a set of principles and case studies, they could tilt many of their decisions to align them better with the ideals of the moral-cultural system that is so important to the tripartite system by which we live. Such executives are played false by moral-cultural leaders who misunderstand the ideals of democratic capitalism and who manifest so much naivete and utopianism about the state.

Although moral-cultural leaders speak earnestly about the need for accountability in the economic system, they do not yet appear to think clearly about the consequences of vesting such accountability in the state. Ethicists do not yet balance their analysis of the moral dangers of selfishness, immorality, and corruption in the economic system with a parallel analysis of the moral dangers of selfishness, immorality, and corruption in the political system (Wolf 1979: 114-123). The public interest is best served by an economic system powerful enough to resist and to restrain the

political system, for the classic danger to freedom comes far more from the tyranny of the public sector than from the sins of the private sector. Scholars determined to be as neutral as possible between the large corporations and the state must, in fairness, begin to analyse the specific lack of accountability, the specific corruptions, and the specific evils endemic to the public sector, as they already analyse those of the private sector.

I advise intelligent, ambitious, and morally serious young Christians and Jews to awaken to the growing dangers of statism. They will better save their souls and serve the cause of the Kingdom of God all around the world by restoring the liberty and power of the private sector than by working for the state. I propose for the consideration of theologians the notion that the prevailing moral threat in our era may not be the power of the corporations but the growing power and irresponsibility of the state.

The health of the Christian church and the Jewish people in the next century will depend to an extraordinary degree on the perspicacity of the present generation in discerning where the greater danger lies, and in throwing its weight with the weaker party. Merely to follow the conventional wisdom on these matters would be to betray the unrestricted drive to understand.

5. The Praxis of Democratic Capitalism

It would be intellectually unsatisfying to leave this subject without making some comments on the moral practice that flows from the theology of the corporation outlined so briefly above. Since democratic capitalism is a tripartite system, it is wrong to think of it merely as a free-enterprise system. The economic system is only one of three systems, each of which has claims on our loyalty, each of which is indispensable for the functioning of the others. Although there is much to be gained when the leaders of each system respect the relative autonomy of the other two, and when each system fulfils its own specific responsibilities first, no one of these three systems stands alone. Each human being is at once a citizen of a democracy, an economic worker, and a moral agent within a culture. Not only is it possible for an economic system to be suffused with moral purpose and religious belief; democratic capitalism is distinct from

other commercial systems in the world *because* of the religious and moral value that it attaches to commerce. It is one thing to tolerate commerce and to regard it as a vulgar necessity. It is another to regard it as the fulfilment of a vocation from God and a way of cooperating in the completion of Creation as God intended it.

To be sure, a fully differentiated type of democratic capitalism cannot impose a religious vocation and a religious self-understanding on all who partake in it. Pluralism requires openness to other motivations and understandings. There are in all cultures and at all times persons who believe that power and wealth are the actual goals of striving, despite moralists' insistence on the importance of virtue and high-mindedness. If the belief did not persist, the dialogues of Socrates and Thrasymachus and the dialectical arguments of Aristotle about the nature of true happiness would have no relevance for the ages.

In their useful little casebook, *Full Value*, Oliver Williams and John Houck give two categories of moral flaw often cited by a public that is losing confidence in the moral integrity of business: '1. numerous violations of legal codes that have come to the attention of the public, such as price fixing, tax law violations, and bribery. 2. breaches of the professional code of ethics by business persons, such as deceptive advertising, selling company secrets, and dishonesty in expense accounts' (Williams and Houck 1978: xv).

These problems are immemorial; no system will ever eliminate them. They are encountered, analogously, in politics, government service, the academy, and other professions. Yet every immorality must be struggled against. Williams and Houck quite successfully juxtapose the power of the Christian story, in its biblical immediacy, to the concrete problems that Christians in the world of business are likely to meet. This is an excellent example of the way in which the moral-cultural system shapes the attitudes and behaviour of those within an economic system. It vivifies, directs, and restrains the latter not by subordinating it institutionally but by supplying it with a way of life that gives it spirit.

Williams and Houck's cases open up another category of moral problem as well – the problem of a democratic capitalist system in interaction with an entire world of other cultures and other

economic and political systems. They mention, for example, the problems of Gulf & Western in the Dominican Republic, an American hotel chain in Jamaica, and a resolution of the US Senate on world hunger. In these cases, the authors raise important issues, though they are perhaps a little less critical of conventional pieties on these issues than on others and a little one-sided in their conception of the empirical situation.

From the theology of economics sketched above and even more from the notes offered toward a theology of democratic capitalism, it follows that Western business enterprises abroad represent not simply an economic system alone but also a political and a moral-cultural system. They are, willy-nilly, agents of democratic capitalism, not of free enterprise alone. Moreover, unless they succeed in establishing on foreign soil at least some of the political culture and some of the moral culture in which alone democratic capitalism can be incarnated, they are doomed to lose spiritual legitimacy. Without the latter, freely bestowed, they are bound to be regarded as illegitimate enterprises. In the long run – and, often enough, even in the short run of five or ten years – such moral status is bound to have damaging consequences for the business enterprises themselves and for the political and moral-cultural systems they represent. On the one hand, impossible political and cultural burdens cannot be imposed on business enterprises. They have not been constituted as primary agents of the political or moral-cultural system, and asking them to do well what they are not set up to do is asking too much. On the other hand, they cannot escape the burden of carrying with them the presuppositions of their own native political and moral-cultural systems. To these, too, they must do at least rough justice.

Direct political interference on the part of Western enterprises abroad would be fiercely, and properly, resisted. So would a sort of tacit moral-cultural imperialism. Yet the international war of ideas cannot be evaded. Cultures that are not democratic capitalist do not observe the differentiation between an economic system, a political system, and a moral system. Both traditional authoritarian and socialist regimes have unitary theories and practices of control, and both attack the differentiation required by democratic

capitalism. Corporations must become more aware of the maelstrom of ideas, beliefs, and practices that they enter.

In this respect the debate about the social responsibility of business has been badly drawn. Though not designed to be either political institutions or moral-cultural institutions, business enterprises are, as it were, plants that cannot flourish independently of the trebly differentiated roots from which they have sprung. Their responsibility to themselves entails sophisticated attention to the political and moral-cultural requirements of their own existence. Such are the facts of life of democratic capitalism.

The most urgent question posed by Williams and Houck concerns world poverty and hunger. They borrow from Fr. Hesburgh's *The Humane Imperative* (Hesburgh 1974: 101) the image of a spaceship containing five spacemen, one of whom (representing the populations of the democratic capitalist lands) produces and uses 80 percent of the spacecraft's goods. Two centuries ago, the United States and Western Europe were not democratic-capitalist lands, nor had they escaped from poverty. They were mercantilist societies with widespread poverty, recurrent famine, and 'underdeveloped' transport, living conditions, and diet. These nations, like others, were threatened by the Malthusian trap. How did they escape the poverty, disease, ignorance, and material precariousness that they then shared with most of the rest of the world?

They did it by following an idea. Many scoffed at the idea; many rejected it. It is a dynamic idea, not complete once and for all time. It is experimental in temper. It is rooted in the differentiation of the economic, the political, and the moral-cultural systems. It interprets human society as so composed by the Creator that its greatest source of social dynamism is the imagination, initiative, and freedom of the human person. It is an idea whose express purpose is to increase the material wealth of all nations, at the very least eliminating famine and poverty.

There are today no democratic capitalist nations that cannot feed themselves. Major socialist nations, which used to be net exporters of food, are no longer able to feed themselves. Many traditional societies, down through history subject to famine, still

endure it. None of this hunger is necessary, for it is not caused by ignorance about agriculture. Its sources are preeminently to be found in economic and political institutions that needlessly stifle elementary economic growth.

No person of conscience can remain indifferent to hunger and poverty. The great intellectual and moral argument of our time is not whether we should do all we can to raise the material wealth of all nations but what we ought to do and how. The greatest irresponsibility of all would be to pretend that we know nothing about how to produce wealth, or that the knowledge was not implanted on this earth by the Maker of all things, so that His creatures, by trial and error, would in due course discover it.

It is the ethical responsibility of Christians who enter the business corporation to recognise that their way of life has a twofold importance for the entire world: the spiritual importance of a set of ideas and the material importance of showing all nations a way out of famine and misery. Now that the secrets of how to produce wealth are known, famine and misery spring not from the will of God but from the will of man.

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II.

Eight Arguments About The Morality of the Marketplace¹

The purpose of this paper is to discuss eight arguments regarding the morality of markets. Five of them derive from recent discussions in Britain, two from Pope John Paul II, and I add, for good measure, one of my own.

Perhaps giving a name to each of these arguments will be useful. The names of the first five are the argument from covetousness; the epistemic argument; the argument from autonomy; the argument from the growing immateriality of preferences; and the argument from the manifest discontents of materialism.

The two arguments from Pope John Paul II are the arguments from creativity and from community. The eighth and final argument is from universal opportunity – that is, the liberation of the poor. I conclude with a section on the ambiguities of markets.

1. *The First Five Arguments*

‘The driving power of capitalism,’ writes the distinguished English Christian missionary to India, Leslie Newbigin, ‘is the desire of the individual to better his material condition ... The name that the New Testament gives to the force in question is covetousness. The capitalist system is powered by the unremitting stimulation of covetousness’ (Newbigin 1986: 113).

This is one justification (condemnation, rather) of capitalism. If it were accepted by a poor nation, such a theory would be its own punishment. Note, too, its image of wealth. Desiring to improve one’s material condition is covetousness because whatever one needs for self-improvement already belongs to others – it is theirs and one covets it. But this is to imagine wealth as a fixed sum, all of it

¹ Originally published as Novak (1993: 8-29).

previously assigned, and to overlook the dimension of invention, discovery and the creation of new wealth. It is to imagine all gaining of wealth as 'taking'.

Leslie Newbigin's view of capitalism as covetousness is one example of a Christian interpretation of capitalism. Bishop Richard Harries of Oxford offers a view far more sympathetic, nuanced, and yet detached. His title asks, *Is there a Gospel for the Rich?* and his answer is his '...conviction that God's liberation is for everyone. The rich need to be liberated no less than the poor...' (Harries 1992: 72). Intelligently and with discrimination, the bishop discerns Christian potential in the social device of the free market, in private property, in innovation, in the business firm, in profit, and even in the transnational corporation. The *bête-noire* and polemical foil for his book is the 'New Right', to which he wishes to supply a sophisticated alternative. He describes Britain as a 'post-socialist' society. His aim is to present a more humane and evangelical form of capitalism than any (he thinks) yet dreamed of on the 'New Right'. He is rather bigger on 'affirmative government' than is the 'New Right', for example.

In offering his argument on behalf of a market economy, Bishop Harries begins with a leader from *The Guardian* in 1981 which accepted the market as an inescapable fact of life and an important source of much needed knowledge: 'It is the market which acts as an essential signal from consumers to firms telling them how much to produce, when to produce it, and what sort of quality to make'. Besides this information, 'the profit of corporations (or cooperatives) is also the market's way of signalling success: it is an essential guide to, and source of, investment'. In brief, Harries summarises, to all except a very small percentage of the Labour Party, the free market is '...essential, inescapable and, for all its flaws, to be valued' (Harries 1992: 88-89). This approval for markets, Harries notes, is '...as robust as could come from any "Thatcherite" economist'. John Gray calls such a defense of the market the epistemic argument for markets and offers a brief and elegant statement of it in *The Moral Foundations of Market Institutions* (Gray 1992: 5-17).

But Gray also offers another fundamental and at least partly original argument – from autonomy. More than any other system, he argues, a market system enhances the individual's scope for and frequency of acts of choice. Gray does not see this argument as necessarily universal. It may mean less to East Asian societies, for example, whose social and psychological structure is more communitarian, less individualist, than those of the West. Nor does he think of an emphasis on choice as an unmixed blessing. On this as on other things, individuals and societies can go over the top. *What* is chosen can matter greatly. Nonetheless, the argument from autonomy is difficult for any Western intellectual to dismiss, since Westerners value choice highly. The best rejoinder from the left is to suggest that too few people actually possess autonomy in sufficient degree, so that much social (and governmental) effort must be expended in 'equalising people' through redistribution (Gray 1992: Chp.4).

To his credit, Gray resists redistributionist policies. These are in practice doomed to failure and in principle unjust. But he does argue that any society which favours autonomy must, by that very commitment, empower all its citizens to reach some basic level thereof. Gray thinks that he has found a way to define this basic desired level through a concept of 'satiabile needs' (Gray 1992: 63-72). Yet since poverty is normally taken as a relative measure – by American standards, for example, more than a third of Western Europeans would be living in poverty (Rector 1990) – I doubt that Gray's efforts in this direction are sustainable. The human spirit is in principle insatiable. The mind is, as Aristotle said, 'in some way all things' – that is, restless until everything is known that can be known. As St. Augustine put it: 'Our hearts are restless, Lord, until they rest in Thee'. The empirical starting place of the religious quest, and of the Jewish and Christian concept of God, lies in the striving of the human spirit for the infinite. Insatiability is part of our nature.

'If only I could have that', we have often told ourselves, 'I would be satisfied'; only to find that we never are. Autonomy is always like that. We can never get enough of it. Whatever of it we have always runs into limits, often quickly, and we wish that we

had no such limits; we would wish to be like God. Even kings and princes rail against their too-narrow autonomy. Such is the stuff of a great deal of the best drama in England.

Fourth, there is an argument for the market based upon the growing immateriality of what people are actually willing to buy. Markets depend on people's choices. Kenneth Adams thinks that he has discerned an impending switch in consumers' preferences:

Suppose that our increasing demand is for entertainment, sport, music, theatre, literature and all other areas of human growth: in relationships, in intellectual and aesthetic delight – these will place much smaller demands on materials and energy. Furthermore, as desire grows in those wider, richer, higher areas of human need, it is likely that desire for increase in the material areas will stabilise or decline (Adams 1990: 80).

Or, as George Gilder puts an analogous point: the actual physical material of a computer disc for a software program that costs, say \$400 is made of plastic worth about 85 cents; the rest of the value lies in the information coded on it. That is to say, an increasing proportion of production today lies in its 'spiritual' rather than its 'material' components. Industries are becoming cleaner; through miniaturisation, physical products are becoming smaller, more powerful, and (usually) cheaper. The full implications of the term 'Information Age' have barely begun to be absorbed by and articulated in theological thought.

The fifth argument for the market – admittedly an odd one – is that the economic plenty produced by market societies has proved conclusively that 'man does not live by bread alone'. The traditional Jewish and Christian predictions about the discontents inherent in materialism have been confirmed. The textual evidence for this lies in university bookstores in the sections – usually larger than for those for traditional philosophy and theology – devoted to astrology, witchcraft, and the occult. 'When humans stop believing in God,' Chesterton once wrote, 'they don't believe in nothing; they believe anything'. All around us we see signs of boredom, restlessness, and discontent.

In this, our present material paradise, even the poorest pauper has better health care through the National Health Service than poor, mad, blistered, bled, and purged George III received from the chief of the Royal College of Medicine. Today's busman drives a personal automobile that Henry V would have envied. Even the 'merest' shop-girl today has her pick of fresh and varied foods from every tropical and temperate clime on earth. And scurvy, rickets, consumption, smallpox, and other scourges of the poor have all but disappeared. Yet even in this material paradise, our hearts are restless. This is no small gain for market societies to have produced. Whether we can take advantage of it and inspire new perspectives is another question.

2. Plus Two: Arguments from Creativity and Community

None of these five arguments (except perhaps the first) is alien to Pope John Paul II, who, as the hundredth anniversary of *Rerum Novarum* approached, was asked again and again by bishops from Sri Lanka to Sao Paulo to Kiev, 'What direction do you now recommend to us, after the collapse of socialism?' The Pope was certain to issue an encyclical commemorating Leo XIII's 1891 encyclical *Rerum Novarum*; moreover, after the events of 1989, he had to provide an answer. He recommended 'the free economy, the market economy', the economy of creativity and enterprise. He was even willing, although reluctant, to use the word 'capitalism', so long as the system intended by that word included a worthy juridical system protecting human rights and a moral/religious system imposing ethical limits (John Paul II 1991: #42). Yet his arguments for this decision are rather different from the five preceding arguments.

Pope John Paul II's argument from creativity flows from his concept of 'the acting person', worked out in his book by that title written before he became pope (Wojtyla 1979), though at that time, he had not seen its relevance for economics. What makes humans distinctive among the other animals, he held, is their capacity to initiate new projects (especially life projects); that is, to imagine, to create, and to *act*, as distinct from merely behaving. Throughout his pontificate, the Pope has focussed on this 'creative subjectivity'

of the human person' (John Paul II 1988: #15).² In this he saw the *imago Dei*: humans made in the image of the Creator in such a way that to be creative is the essential human vocation. In this, too, he saw the endowment of a fundamental human right to personal economic initiative.

This argument, it will be noted, offers a different grounding for an expression such as 'natural rights' from that offered by Hobbes, Locke, or other Enlightenment figures. The Pope's argument is, in the main, a philosophical argument, and could perhaps be supported by philosophical thought in the manner of Gabriel Marcel, in *The Mystery of Being* and *Creative Fidelity* (Marcel 1960; Marcel 1964). The emphasis of certain phenomenologists and existentialists on human 'becoming', on 'creating oneself', and the like, are other indications of what might be done. This argument also has much to commend it from the viewpoint of commonsense. It is far harder to predict the future of one's children, for example, than that of the household cat. The latter does not have to think about choosing a career at all, let alone to choose among self-invented possibilities. The exact way in which the Pope deploys the argument, of course, depends on the doctrine of creation and a long Christian tradition of interpreting the Book of Genesis. The Pope's argument is more properly theological than philosophical. Still, it is quite striking.

The Pope sees that for much of Christian history the most important form of wealth was land, just as the term 'capital' derived from counting the heads (*capita*) of sheep, oxen, cows, goats, horses and other livestock that marked a farm's productivity, along with fruits, vegetables, and grain (John Paul II 1991: #32). Grateful emperors and kings gave out lands as rewards for meritorious service, such as the grant of Blenheim to the Duke of Marlborough by Queen Anne, and many other grants by the Spanish and Portuguese rulers

² Here one should note that neither Novak nor John Paul II use the words 'subject', 'subjective' and 'subjectivity' to describe that which is purely personal and idiosyncratic to each individual. Instead, they use these words in a Thomist sense; that is, as a way of expressing the anthropological truth that human beings are the support and predicate of their human actions; or, to put it another way, that human persons are by nature capable of freely willed acts (Bigongiari 1953: 214-215; Copleston 1985: 271-278) (Ed.).

to *conquistadors* in the New World. Wealth in land belonged chiefly to the nobility, although in some places smaller freeholds were also conspicuous, especially in Britain and for unusually long and uninterrupted family tenure. To this happy accident of history, due in part to Britain's relative safety from invasion by land, Adam Smith attributed Britain's steady growth in liberty, respect for rights, and prosperity.

At a later period, the Pope notes, wealth (like the term *Das Kapital*) came to be associated with ownership of the means of production – with machinery, factories, and other impersonal aspects. Indeed, in his first social encyclical, Pope John Paul himself used 'capital' only for impersonal objects, using 'labour' to refer to human persons as factors in production, whatever their economic role (John Paul II 1981: #12). In *Sollicitudo Rei Socialis*, he had already seen clearly enough that even common ownership of the means of production, and certainly state ownership, could not guarantee the humanity of an economic system – neither its capacity to produce wealth nor its capacity to respect 'the fundamental right to personal economic initiative' (John Paul II 1988: #15). That right, he saw then, was grounded in the *imago Dei* imprinted on man's soul.

In *Centesimus Annus*, the Pope carries this line of thought further. The new, deeper, and more telling referent for the word 'capital' is neither land nor the impersonal means of production but, rather, '...the possession of know-how, technology and skill'. The chief cause of the wealth of nations is human wit – discovery, invention, the habit of enterprise, foresight, skill in organisation. 'The wealth of the industrialised nations is based much more on this kind of ownership than on natural resources' (John Paul II 1991: #32). 'Indeed, besides the earth, man's principal resource is *man himself*. And, again: '...today the decisive factor is increasingly *man himself*, that is, his knowledge, especially his scientific knowledge, his capacity for interrelated and compact organisation, as well as his ability to perceive the needs of others and to satisfy them' (John Paul II 1991: #32).

It seems to me, after countless re-readings, that the Pope might be thinking in these passages of Japan – that tiny land with hardly any natural resources, almost 100 percent dependent on overseas

sources of energy. Nonetheless, resource-poor Japan is perhaps the wealthiest nation on earth – and in economic terms the most creative. The cause of Japan's wealth cannot be an abundance of natural resources nor even proximity to its major markets; nor can it be argued that its densely packed population (140 million inhabitants crowded onto the one-fourth of Japan's land mass that is habitable) has rendered Japan hopelessly poor, as the theories of contemporary Malthusians will lead one to predict. Instead, the Japanese have highly developed, and make exquisite use of, their human capital. For 130 years, since the Meiji Reforms, Japanese education has been on an admirable upward curve. Without the pressure of the Western cultivation of autonomy, the Japanese capacity for coordination and organisation is without peer. Japanese workers appear to many Western eyes to behave more like a willing flock or docile herd than Westerners could bear to behave. Nonetheless, they have also shown their ability to emulate the Western zest for discovery, innovation, flexibility, quick response, and competitive drive. Without even recognising the Creator of whom Pope John Paul II speaks, the Japanese have shown remarkable capacities for creative action in world manufacturing markets. If John Paul II's theory about the *universal* human capacity for creativity is true, then this is as it should be. Creativity by any other name causes wealth, as natural resources alone do not.

But the very powerful communitarian and centripetal structure of Japanese society brings to light the other argument for markets made by Pope John Paul II: that where human creativity is at play today, a new and highly interesting form of community is also at play. In the largest sense, the market of today is a world market; it interknits every part of the world within a single, complex web of contracts, transactions, and networks of supply and demand. Many of these transactions are instantaneous. World markets, both for stock and for commodities, and above all for information (the newest, most vital form of capital), are open for simultaneous viewing on television and computer screens linked to one another around the world in 'real time'.

Dostoevsky once described charity as an invisible filament linking the world in a network of impulses, along which a simple

human smile or an aspiration of love could circle the globe in minutes to bring cheer to someone, even a stranger, faraway. A person who receives a smile, he noted, often feels impelled to pass it along by smiling to someone else in the next chance encounter, and so with the speed of light the smile circles the globe. The new television and computer images, like impulses bounced off cold and silent satellites in space to touch and vivify every part of earth, may only be metaphors for the nerves and tissues that have always tied together the Mystical Body spoken of by St. Paul, but such ligatures seem more visible now. Even in the fifth century A.D., a great Father of the Church, St. Gregory of Nyssa, observed that human trade, exchanging the wool of one place for the wine of another, the clay pots of one culture for the grain of another, is an image of the bonds uniting the one family of God. Surely it is better that these links should be visible in voluntary trade than in world war. Indeed, *Commercium et Pax* was once the motto of Amsterdam, whose scenes of commerce and shipping were painted often by Turner.

Obviously, though, the Pope's focus is more on the Christian West (and Third World) than on Japan, and I have no idea in fact whether he ever thought of Japan at all. Yet even in the supposedly more individualistic West, the Pope sees that the market is, above all, a social instrument. It has a centripetal force. It obliges sellers to find buyers (sometimes at great distances and across significant spans of time). It calls for sequences of action that involve many different hands coordinated by remarkable capacities for foresight and organisation. Indeed, most economic activities in the modern environment are too complex to be executed by one person alone; nearly all of them require the creation of a new type of community, not organic but artifactual, not natural (as the family is natural) but contractual, not coercive (as was 'real existing socialism') but free and voluntary, not total like a monastery but task-oriented and open to cooperators even of diverse belief systems and ultimate commitments. In short, the distinctive invention of capitalist societies is the business firm, independent of the state.

About the business firm, the Pope is surprisingly eloquent. There has been a tendency in Roman Catholic thought – the document of Vatican II on 'The Church in the World', Oswald von

Nell-Breuning, S.J., has pointed out, is one example (Nell-Breuning 1969: 299) – to notice only four economic roles: the owner, the manager, the employer, and the employee; while neglecting entirely the creative source of the firm, the practitioner of the virtue of enterprise, the entrepreneur. Pope John Paul II does not fall into this pattern. Here is what he writes in *Centesimus Annus*:

People work with each other, sharing in a 'community of work' which embraces ever widening circles. 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. Besides, many goods cannot be adequately produced through the work of an isolated individual; they require the cooperation of many people in working towards a common goal. Organising 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.

A few lines later the Pope comes back to this theme:

It is [man's] 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. 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 set-backs (John Paul II 1991:#32).

Contemplating this modern economic process – this historically unique way of drawing upon the creative individual working within voluntary, cooperative community – the Pope writes this quite stunning sentence: ‘This process, *which throws practical light on a truth about the human person which Christianity has constantly affirmed*, should be viewed carefully and favourably’ (John Paul II 1991: #32). The modern business process – *business*, of all things! – ‘throws practical light on [Christian] truth’. And then note: the Pope urges theologians and other Christians to view this business process ‘...carefully and favourably’. The Pope is only exercising here the classic Catholic habit of seeing in all things the signs of Providence at work, the hidden presence of that Logos ‘by whom and with whom and in whom were made all the things that are made’ (John 1:1-3). Sometimes referred to as the Catholic ‘sacramental sense’ or ‘way of analogy’, this mode of perception lies behind the tradition of blessing the fishing fleets, the fields to be sown, and the harvests. If humans are made in the image of God, then their actions (especially their creative actions) are also so marked. As Georges Bernanos wrote at the end of *The Diary of a Country Priest*, ‘Grace is everywhere’ (Bernanos 1962). Even William Butler Yeats took up the sentiment: ‘Everything I look upon is blest’.

It is remarkable, of course, that something so scorned in literature as the business firm and the modern corporation should be set before us by the Roman Pontiff as a lesson to ‘be viewed carefully and favourably’ for the ‘practical light’ it sheds on Christian truth (I personally know writers who, if I had written that line, would have described it as excessive). Yet such praise fits quite comfortably within an old tradition, in whose light grace was seen to be working even in rather tyrannical and amoral kings; in the thief who died beside Jesus on the cross; and in every neighbour a man meets. To see grace at work is not to see only beauty and light, but real things as they are, in this messy, fleshly, and imperfect world. For the Creator looked on this world and proclaimed it ‘good’, and for its redemption He gave His only Son. A Roman Catholic is taught to see grace in flawed and all-too-human popes, in the poor of Calcutta, and (hardest of all sometimes) in himself.

In summary, the Pope has advanced two new arguments in

support of his proposal that market systems shed practical light on Christian truth and advance human welfare. The first is that markets give expression to the creative subjectivity of the human person, who has been created in the image of the Creator of all things, and called to help complete the work of creation through sustained historical effort.

His second argument is that markets generate new and important kinds of community, while expressing the social nature of human beings in rich and complex ways. Markets are not in their essence instruments of alienation, exploitation, anarchy, and centrifugal egoism. They are good instruments that serve human community. Like all things human, however, they can be used inadequately, badly, and for evil purposes. No less than man himself are they capable of both good and evil. Yet to concede that markets are in themselves good is to concede a great deal. To recommend them merely as better than any known alternative is to praise them quite sufficiently.

3. And One for Good Measure

To add my own voice to that of the Pope may seem impertinent; yet it is the duty of theologians to attack advance outposts and to scout unsettled lands. So I wish to propose another reason for proposing markets as a strategy of a Christian theology of liberation for the poor, a proposition for which the evidence of immigration patterns around the world offers *prima facie* support: that market systems better allow the poor to rise out of poverty than any other known social system. Economic opportunity on this planet is as scarce as oil. Immigrants stream toward it by the million.

Great Britain, Canada, Germany, Italy – most of the market systems on this planet receive steady streams of immigrants. The United States alone between 1970 and 1990 accepted some 16 million *legal* immigrants (Nobody knows in addition how many illegal ones came through our porous borders). This is as if we had accepted during that time a new population four times larger than Switzerland's. Most of these new citizens arrived in America poor. America is quite good at helping immigrants to find opportunity, provided only that the latter are willing to seize it, as the vast majority

do (One should remember this in learning that of the 250 million citizens of the US in 1989, 31 million were counted as poor, for want of an annual income of \$13,400 for a family of four). Most of those new citizens were also non-white. Indeed, in America's largest state, California, English is now the *second* language of a plurality of households. This is why Americans rank 'opportunity' quite high in evaluating economic systems. Bishop Harries does not quite get this point; he dismisses 'the American dream', which is in fact more universal than he allows, in peremptory fashion:

It is not an ignoble [dream] but it is certainly limited. By its nature some fail to make it and are left behind, and when their numbers run into many millions questions must be asked (Harries 1992: 101).³

Questions must always be asked, but the perspective ought not to be skewed. Although virtually 100 percent of Americans arrived in America poor, today 87 percent are not poor, and we must now do better with the remaining 13 percent. Of these, only about 8 million of America's 30 million officially designated 'poor' persons are able-bodied persons between the ages of 18 and 64; the rest are either 65 or older, or 17 and younger, or sick and disabled. For the 8 million able-bodied, the work of the 'opportunity society' is not yet complete.

America is also good at helping most of the American-born poor – the elderly, those under 18, the sick, and the disabled – for whom economic opportunity is not a saving option. Where private family-care is not available to them, where the many programs of civil society let them down, government medical aid, food stamps, housing assistance and other programs have been supplied to fill the gap. This is good and proper. Particularly for the elderly, the 'war on poverty' launched in the mid-1960s was a great success. Millions are living far longer and at a higher standard of well-being

³ Harries sometimes writes as if most of the poor in America were black or Hispanic (actually nearly three-fourths are white) and as if a majority of blacks and Hispanics were poor (actually about two-thirds of each are not poor). The single greatest determinant of poverty is not race but belonging to a household headed by a single mother.

than ever before. The elderly (those over 85) have supplanted those over 65 as the major concern.

But for younger adults in good health, the 'war on poverty' has actually done much damage (Murray 1984). Our government programs have failed our young. The fastest growing group among the poor has been single female householders with young children. This did not happen before, when people were far poorer than at present, and when current government programs barely existed. Never before have so many males deserted females through separation, divorce, or the generation of children out of wedlock, with little or no sense of paternal responsibility. The results have been deplorable for children, the young mothers and the young males themselves.

Thus, the great moral and social problem facing the United States today is to devise new ways to help this group of 8-10 million able-bodied poor adults, mostly young, in ways that do not reduce them to a kind of serfdom, and further depress their morale. Concerning various ways to correct recent practices, I have elsewhere written (with a team of others) at much greater length (Novak et al. 1987).

Here I want to stress, rather, the crucial importance of dynamic market systems for raising up the poor of Central and Eastern Europe, Latin America, and throughout the 'Third World' (which is actually several quite different worlds). For what these poor millions – some 2.5 billion of them – have in common is not only a lack of opportunity but a sustained, systematic repression of their right to personal economic initiative. Most of them find in their homelands no institutions that might nourish and support that right: constitutionally protected private property, open markets, cheap and easy legal incorporation of businesses, access to legal and low-cost credit, technical assistance, training, and the like. To gain access to such institutions, many millions must seek freedom of opportunity far from home.

Throughout the 'Third World', it is important that it soon become cheap, easy, and quick for poor people to incorporate small businesses. Latin American systems are patrimonial; although these nations have markets, private property, and profit (in a pre-capitalist

way), small elites still control the apparatus of the state, and thus still control access to the economy. Most Latin American nations are not opportunity societies. Opportunity is the great comparative advantage – much more important than ‘natural resources’ – that the US has over its Latin American neighbours. To seek opportunity, many Latinos migrate northwards.

The fact that market systems open opportunity for the poor is one of the most important arguments in their favour. I mean, of course, the type of market economy that is not protective of the rich but gives the able-bodied poor many opportunities. Such markets, regularly revolutionised by new inventions and new technologies, bring down many of the formerly rich (as old technologies and ossified firms become obsolete). Similarly, they raise up many of the formerly poor (as new inventions and new forms of knowledge generate new opportunities). But their greatest strength lies in the openness and dynamism of the small business sector, through which so many millions rise out of poverty.

Open markets liberate the poor better than any known alternative. Open markets favour creativity and dynamism. They also narrow the perceived distance between personal action and personal fate. To narrow that gap is to strengthen human dignity. The experience of that dignity makes free peoples walk with a confident gait and evenness of eye.

The peoples of the whole world should have the opportunity to walk that walk, as now most of them do not. That is why systemic change is necessary in the Third World. Market systems allow human creativity the freedom to act. Nonetheless, like all things human, market systems are not without their ambiguities.

4. The Ambiguities of Markets

One of my favourite writers on social ethics is Ronald Preston of Scotland, a follower of the great American theologian of the last generation, Reinhold Niebuhr. Preston’s latest book *Religion and the Ambiguities of Capitalism* fits comfortably in the sequence of R.H. Tawney’s *Religion and the Rise of Capitalism*, V.A. Demant’s *Religion and the Decline of Capitalism*, and his own *Religion and the Persistence of Capitalism* (Demant 1952; Tawney 1964; Preston 1979;

Preston 1991). (The sequence of these titles, by authors who consider themselves friends of socialism rather than capitalism, is in itself rather illuminating: from the worrying *rise*, to the comforting *decline*, to the puzzling *persistence*, to the scrupulously discerned *ambiguities* of 'almost triumphant' capitalism.) While fussing about its residual problems, Preston concedes much of the historical argument to capitalism, including its stress on the importance of innovation, incentives, private ownership, flexibility (rather than central planning) with respect to the future, and the many utilities of markets. He reformulates the traditional argument less forthrightly than did the American Marxist writer Robert Heilbroner: 'Less than seventy-five years after it officially began the contest between capitalism and socialism is over: capitalism has won' (Heilbroner 1989). Preston writes rather more complacently: 'I propose to argue that the issue is not between the free market and the central, planned economy, but how far we can get the best of what the social market and democratic socialist models propose' (Preston 1991: 15).

Now this proposal is remarkable in two ways. First, it turns out, Preston's discussion of the social market model and the democratic socialist model stresses the virtues of markets to a surprising degree. Second, Preston's own ideological commitments prevent him from even considering what many take to be a more humane, dynamic, progressive, and Christian alternative to social market and democratic socialist economies – the democratic capitalist model. He simply leaves it out of account. Preston is quick to spot ideology in others, writing often of 'ideologists' or 'ideologues' to his right, while describing himself as a 'realist'. When he lapses into preaching that 'a positive attitude to taxation is needed among citizens. It is a good thing to pay taxes!' (Preston 1991: 75), one does doubt his realism.

More admirably, Preston qualifies his own 'social Christianity' by taking on board some of the insights offered by writers to his right, such as Friedrich von Hayek and James Buchanan. Moreover, although he seems not to recognise it, many of the arguments that he makes concerning the 'ambiguity' of markets are also consistent with the philosophy of democratic capitalism. Among these are such arguments as these: that 'we cannot do without markets, nor

can we do with them alone' (Preston 1991: 75); that markets '...have to be rigorously monitored to prevent the creation of cartels, quotas, monopolies and other restrictions' (Preston 1991: 75) – see Adam Smith; that markets produce inequalities of income, not wholly in accord with inequalities of merit or effort, and thus give rewards at least partly on a pre-moral basis; that markets are not good for all purposes, for example, some public goods; and that there are sometimes externalities for which some agents escape paying proper costs. All these points (and more) are included under what is meant by 'democratic capitalism' (Novak 1989; Novak 1990; Novak 1991a; Novak 1991b; Novak 1991c). There are, for example, some things that should never be bought or sold; in some domains, markets are illegitimate; neither democracy nor the market is a device suited for all purposes. On such matters, Preston and I are in agreement.

Yet there is one point on which Preston seems clearly to be incorrect, at least by omission; this is his treatment of inequalities of income. First, he praises markets for what they do well, as follows:

To recapitulate, other things being equal, markets are a highly efficient way of getting economic decisions made in accordance with the freedom of choice expressed by consumers: that is, by the dispersed exercise of political and economic power. They are an incentive to thrift and innovation, so tending to maximise the productivity of relatively scarce economic resources.

But then Preston adds a sentiment in need of vigorous challenge:

On the other hand, left to themselves market economies produce cumulative inequalities of income which distort the market by drawing the relatively scarce resources to what the wealthy want and away from the necessities of the poor (Preston 1991: 74).

The assumption here seems to be that non-capitalist systems do this better. But this is clearly not true of the pre-capitalist Third World regimes of present-day Latin America, Africa, and Asia, in which inequalities of income are of enormous proportions, while for the poor opportunity scarcely exists. Nor was it true of

communist societies, whose poor are now known to have lived in unsuspected squalor and whose elites lived in closed circles of high privilege.

Furthermore, Preston omits another salient contrast. Neither pre-capitalist societies nor socialist societies have done much to lift large majorities of their populations out of poverty, as democratic capitalist nations have done. The degree of upward mobility in capitalist societies has no precedent in history, and the array of opportunities that they offer to the poor for advancement by way of talent and effort has had no equal. Moreover, it does not seem to be true that market economies produce 'cumulative' inequalities of income, or that these draw 'relatively scarce resources' away from 'the necessities of the poor'.

To begin with the last assertion, the condition of the poor today is far improved over what it was, say, in 1892 (or 1932), so that the very word 'necessities' now entails far higher standards than in centuries past, far above mere survival or subsistence. The phrase 'relatively scarce resources', furthermore, is similarly problematic.

Moreover, Preston's accusation of 'cumulative' inequalities of income seems doubly dubious. For one thing, during the life cycle of individuals, incomes tend to rise and then fall; for another, there is immense churning among individuals moving up and down within income brackets from one decade to another. Again, fortunes are often dissipated within a decade after the death of the accumulator. Technologies on which a fortune may be based become speedily obsolete; heirs are seldom so talented or as highly motivated as the creators of the family fortune. Downward mobility is frequent. Elites circulate with rapidity. Preston seems to take the unilateral, cumulative growth of wealth as a given; the staggering fragility and the changeability of fortunes would seem far more prevalent.

Possibly, this difference in perception is due to the unique fluidity of American social structure, as contrasted with that of Europe. To a remarkable degree, European societies are still ribbed within aristocratic, feudal institutions; the United States is far more committed to universal opportunity and, in that respect is a more 'purely capitalist' society. Quite often in Europe today, dominant firms are still run by the descendants of old aristocratic families

(Buttiglione 1992: 34). There really is a perception that wealth and power are stable and cumulative. In America, by contrast, the great families of the 1700s have nearly all died out or lost their prominence. With few exceptions, such as the Rockefellers, the same is true of the great families of the 1800s. Many of the great fortunes of today have been acquired by the living; a significant number, especially among the *nouveaux-riches* of film and entertainment, have also been lost by the living. Great inequalities there may well be, but these are remarkably ephemeral. They are also lacking in moral seriousness: it is not position that counts but quality of performance.

Besides, the good Lord Himself forbade covetousness five times in ten commandments: envy is to be resisted. Equality of income is an ideal appropriate only to the unfree and the uniform. What matters far more than inequality is universal opportunity. As an ideal, universal opportunity is far better suited to creatures made in the image of God, and by God's Providence set in dissimilar circumstances. On this fundamental moral issue, Preston should face more squarely the ambiguities of socialism. He might in that confrontation begin to detect its moral and anthropological errors.

Democracy, capitalism, and pluralism (the three social systems whose combination constitutes democratic capitalism) are, each of them, ambiguous – all things human are. The relevant social question is not 'Is this utopia?' but rather 'Compared to what?' In comparing which system is more likely to bring about universal opportunity, prosperity from the bottom up, the *embourgeoisement* of the proletariat, and the raising up of the poor, the historical answer is clear: for the poor, market systems provide far better chances of improving income, condition, and status. That is one reason why so many of the world's poor migrate toward democratic and capitalist systems.

In a word, market systems combined with democratic political systems offer better hope to the poor of the world than socialist or traditionalist systems do. Despite their inevitable ambiguities, that is one of their strongest claims to moral recognition.

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IN PRAISE OF THE FREE ECONOMY

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III.

Wealth and Virtue: The Moral Case for Capitalism¹

It is a special privilege for an American theologian-philosopher of Slavic background to come to this famous, much-storied, and beautiful city. One in every ten Americans has at least one grandparent who came from the lands once described as 'behind the Iron Curtain'. These twenty-five million Americans, if gathered together, would constitute perhaps the third or fourth largest people of central or eastern European heritage. That is why over the years there has been in the United States much concern for the peoples of this region. The bonds between us are familial.

But there has recently been formed yet another bond between us. A deep longing is visible in this land to build a free society – a society designed for personal responsibility, for initiative and innovation, and for freely given cooperation with others – in short, a society that calls forth and nourishes the three great liberties for which the human spirit has been made. The first liberty is liberty from tyranny and torture, provided by democracy. The second is liberty of economic initiative, invention, and enterprise, provided by a free and dynamic economy. The third is liberty of conscience and information and ideas, provided by an open and free civil society. These are the three great liberties – political, economic, and moral.

Through exercising all three of these liberties, we utter our own distinctive voice in history. Through them, we answer the two great questions of human life. The first of these questions, the personal one, is: 'who am I, under these stars, with so brief a number of years in which to live?' The second, the social question, is: 'who

¹ The original form of this essay was delivered to the Fabergé Arts Foundation in St. Petersburg, Russia in September, 1991. It was given on the first day that St. Petersburg 'returned from the past' and was the first lecture on capitalism given in Russia following the USSR's disintegration. It was first published in Novak (1992: 321-329).

are *we*? Through answering these two questions, we work out our destiny: personal and communal.

1. The Practical Case for Capitalism

From a long distance away, it seems that two of these liberties are easy for the citizens of eastern Europe to understand: the political liberty of democracy; and the moral liberty of the free and pluralistic society. Am I wrong to think that the case for a free economy – for the market economy, for the enterprise society, for the regime of private property, for capitalism – is more difficult to grasp and greeted by some here with a traditional hostility?

Of course, the *practical* case for capitalism is easy to grasp. No other system so rapidly raises up the living standards of the poor, so thoroughly improves the conditions of life, or generates greater social wealth and distributes it more broadly. In the long competition of the last 100 years, neither socialist nor Third World experiments have performed as well in improving the lot of common people, paid higher wages, and more broadly multiplied liberties and opportunities.

This point needs elaboration since, in Marxist analysis, the only beneficiaries of capitalism are said to be the rich. In actual fact, it is the poor who gain most from capitalism. That is why my own grandparents (and scores of millions of others) left Europe for America. They sought opportunity, and they found it. Desperately poor on their arrival (just before 1900), they lived to own their own homes, watching their children and grandchildren advancing in income and education. 'Give me your tired, your poor', the Statue of Liberty beckoned to the world; and nearly 100 per cent of Americans did come to America poor. Today fewer than 13 per cent of Americans are poor (which is defined as having an income below about \$12,000 per year). That means that 87 per cent are not poor, and we still have about 13 per cent to help. Moreover, it should be noted that 38 per cent of the American poor own their own homes; that 95 per cent of the poor have their own television sets; and that a *poor* American is more likely to own a car than the *average* Western European (Rector 1990). Beyond the poor, half of all families have incomes above \$34,000 per year. More than 20 percent have

incomes above \$50,000 per year (US Bureau of the Census 1989: 60, n.168).

It is sometimes suggested that American blacks are poor. But under one-third are poor; two-thirds are *not* poor. Half of all black married-couple households have incomes over \$33,000 per year. The total income of America's 27 million blacks came to \$237 billion in 1989 (Novak 1991). This is larger than the gross domestic product of all but ten nations.

This is not to say that the task of eliminating poverty in America (or other capitalist countries) is finished: it certainly is not. But it is crucial to grasp that the task of capitalism is measured by how well it enriches the poor. To an amazing extent, it does do this. The great majority of Americans can remember when their families were poor, two or three generations ago; but they are not poor today. In Japan, the case is similar, as well as in South Korea, Hong Kong, Taiwan, and other newly capitalist countries as well as in the nations of western Europe. Measure capitalism by how well it raises up the poor. That is the test it is designed to meet. Look around the world and see.

A second practical argument is also widely accepted. Every democracy on earth that really does protect the human rights of its individual citizens is based, in fact, upon a free economy. Empirically speaking, there is not a single contrary case. Capitalism is a necessary condition for democracy. A free polity requires a free economy. It certainly needs a dynamic, growing economy if it hopes to meet the restless aspirations of its citizens.

These two practical arguments in favour of a free economy are powerful. But they do not go to the heart of the matter. One could admit that, yes, capitalism does work better for improving the living standards of ordinary people, stocking the shops with goods in abundance, and imparting broad upward mobility and economic opportunity from the bottom of society. One could admit further that, yes, capitalism is a necessary condition for the success of democracy, since without economic progress in their own daily lives, ordinary citizens will not love democracy. No one will be satisfied merely with the right to vote for political leaders every two years or so, if living standards decline. One could agree with all this, but *still*

one could say, 'But capitalism is not a moral system. It does not have high moral ideals. It is an amoral, even immoral, system'.

The moral case for capitalism is, therefore, the more important case. In addition to being political animals seeking liberty, and economic animals seeking prosperity, human beings are also moral animals, thirsting for fairness, justice, truth, and love. What has capitalism to do with these?

In the lands of Marx and Lenin, the moral case for capitalism has been understated. To capitalism, only evil was imputed. For that reason especially, I thought it useful to articulate for you, briefly and only in outline, the moral case for the goal that you have already decided to pursue.

It was precisely through a moral argument that capitalism first commended itself to human consciousness in America, Britain, and France. This is the case that Marx and Lenin overlooked. Indeed, many in Western lands have also overlooked it, or accepted it only inarticulately and in fragments. Practical people often skip past moral arguments. They thereby run the risk of undermining their own accomplishments. For no historical movement can long outlive the conviction of its protagonists that what they are doing is morally admirable. Moral conviction is one of the greatest forces in history, as you have just proved here in this city. Not even armies can hold it back.

2. *The Moral Case for Capitalism*

As it happens, the early rise of capitalist ideas and practices in America, Great Britain, France, and Italy since the eighteenth century was greeted with hostility from aristocratic, scholarly, and artistic circles. In the ancient world, commerce was much despised. The desire for money was described as 'the root of all evils'. Activities that were merely 'useful' or even 'pleasant' were held to be morally inferior to those that were 'noble'. An aristocratic bias dominated thinking about wealth. The work of agriculture was honoured, along with such arts as architecture, sculpture, and painting. These were identified with 'civilisation'. Grimy industry and sweaty commerce were held to be inferior, servile, and mean occupations, of low moral and social standing. The disdain in which Communism held

merchants, entrepreneurs, and 'profiteers', formed on other grounds, nonetheless parallels these ancient prejudices.

Beginning in the mid-eighteenth century, certain thinkers in Scotland (David Hume and Adam Smith, for example) began to unmask the moral pretences of the landowning aristocracy. The latter spoke of 'nobility' and praised 'leisure', but their allegedly 'higher' form of life depended on the servile toil of labourers, their subjects. Roads were poor, markets were few, and the great agricultural abundance produced by the great landed estates had few outlets. With their vast produce, the aristocracy fed legions of retainers and raised substantial armies. When they coveted goods not available to them, they turned these armies loose for war and plunder. That is why the lords lived in castle fortresses, and why cities throughout most of history were walled. In the pre-capitalist world, wars were frequent, and marauding bands often swept the countryside in search of plunder and booty. The earlier philosophers close to the courts of kings and princes (Machiavelli, for example) wrote of the arts of war and power. For them, power – not plenty – was the social object.

This was the context in which Hume, Smith and others launched one of the great transvaluations of values of all time. They urged the world to turn from the pursuit of power to the pursuit of plenty. They urged human beings to turn from plunder, brigandage, rapine, and warfare to the creative arts of commercial and industrial innovation. Smith, in particular, saw that the cause of the wealth of nations is not war, which impoverishes, but wit: the human capacity to invent, to innovate, to discover, and to organise in new and cooperative ways. The cause of the wealth of nations is *caput* (head).

To put this in Jewish and Christian terms, God created humans in his own image, to be co-creators. Each man and woman is born with the inalienable right to personal economic initiative, the right to invent and to create. Each person is an *imago Dei*, an image of God, born to be creative and inventive. One sees this in the very opening of Smith's *Inquiry into the Nature and Causes of the Wealth of Nations* (1776), in his example of the invention of the machine for mass-producing pins. Such invention is the chief cause of new wealth.

This emphasis upon invention and creativity is *the* distinctive characteristic of the capitalist economy. The capitalist economy is *not* characterised, as Marx thought, by private ownership of the means of production, market exchange, and profit. All these were present in the pre-capitalist aristocratic age. Rather, the distinctive, defining difference of the capitalist economy is enterprise: the habit of employing human wit to invent new goods and services and to discover new and better ways to bring them to the broadest possible public.

The history of capitalism is very closely tied to the development of institutions supporting human practical intelligence, wit, and enterprise. Capitalism is, first of all, the stimulation of *caput*. Its main resource and dynamic force is *human* capital: knowledge, know-how, skill, the knack of insight into new possibilities for making life easier and better for as many others as possible. That is why I prefer to call the new system foreshadowed by Hume and Smith 'capitalism', rooted in *caput*, even though they never used that name, and even though Marx used it as a name of infamy, quite mistaking its unique and novel character.

3. Ten Moral Advantages of Capitalism

In another place, I have counted ten different moral advantages that Hume and Smith foresaw in the new system that they were commending to the practical energies of mankind (Novak 1990).

a. The rise of capitalism would break the habit of servile dependency and awaken the longing for personal independence and freedom.

b. It would awaken the poor from isolation and indolence by connecting them with the whole wide world of commerce and information.

c. It would diminish war-likeness by turning human attention away from war and towards commerce and industry. It would, as Adam Smith writes, introduce 'order and good government, and with them, the liberty and security of individuals, among the inhabitants of the country, who had before lived almost in a continual state of war with their neighbours, and of a servile dependency on their superiors' (Smith 1776: III, iv.4).

d. It would bring the peoples of each country and of the whole

world into closer, more frequent, and complex interaction, and stimulate them to learn of new goods and new methods through international exchange.

e. It would mix the social classes together, break down class barriers, stimulate upward mobility, encourage literacy and civil discourse, and promote the impulse to form voluntary associations of many sorts.

f. It would mightily augment 'human capital' by inciting the emulation of new specialties, skills, and techniques. In addition, it would impart new tastes and encourage the pursuit of new information and new ways of doing things.

g. It would teach the necessity of civility, since under the pressures of competition in free markets, dominated by civil discourse and free choice, sellers would learn the necessity of patient explanation, civil manners, a willingness to be of service, and long-term reliability.

h. It would soften manners and instruct more and more of its participants to develop the high moral art of sympathy, for a commercial society depends on voluntary consent. Citizens must learn, therefore, a virtue even higher than empathy (which remains ego-centred, as when a person imagines how he would feel in another's shoes). True sympathy depends on getting out of oneself imaginatively and seeing and feeling the world, not exactly as the other person may see it, but as an *ideal observer* might see it. This capacity leads to the invention of new goods and services that might well be of use to others, even though they themselves have not yet imagined them.

i. It would instruct citizens in the arts of being farsighted, objective, and future-oriented, so as to try to shape the world of the future in a way helpful to as large a public as possible. Such public-spiritedness is a virtue that is good, not merely because it is useful, but because it seeks to be in line, in however humble a way, with the future common good.

j. Finally, it is one of the main functions of a capitalist economy to defeat envy. Envy is the most destructive of social evils, more so even than hatred. Hatred is highly visible. Everyone knows that hatred is destructive. But envy is invisible, like a colourless gas, and it usually masquerades under some other name – such as equality.

Nonetheless, a rage for material equality is a wicked project. Human beings are each so different from every other in talent, character, desire, energy, and luck, that material equality can never be imposed on human beings except through a thorough use of force. Even then, those who impose equality on others would be likely to live in a way 'more equal than others'. Envy is the most characteristic vice of all the long centuries of zero-sum economies, in which no one can win unless others lose. A capitalist system defeats envy and promotes in its place the personal pursuit of happiness. It does this by generating invention, discovery, and economic growth. Its ideal is win-win, a situation in which everyone wins. In a dynamic world, with open horizons for all, life itself encourages people to attend to their own self-discovery and to pursue their own personal form of happiness, rather than to live a life envying others.

In brief, a system rooted in the creative capacities of human persons takes as its horizon the whole, interdependent planet. It seeks to liberate the poor of the world from the prison of poverty. It focuses on the creation of plenty, rather than the pursuit of power; it needs, and therefore encourages, a world under the rule of law, a world pacific, law-like, and alive with voluntary cooperation. Failure at any of these points would indicate a breakdown in the system.

This moral vision, it is important to note, is highly social. Its horizon includes every nation on the planet and it relies throughout on an unprecedented degree of voluntary cooperation and association. You will have noticed that, in free economies, employees live within a world of incentives and new possibilities and that they are encouraged to smile and to be helpful.

In a certain sense, such a system is designed to get the best out of people, to inspire their creativity and cooperative impulses. You may object, rightly, that I am describing an ideal. But that is the point. A capitalist system does have high ideals. That these ideals are not always met in practice is also true. It is to capitalism's moral advantage, however, that it is driven by internal and necessary reasons to align its incentive structure with its ideals.

The moral genius of capitalism, then, lies in its institutional support for the inalienable capacity of human beings to use their own wits creatively. To the genius it adds, as Abraham Lincoln once

put it, the fire of interest. Capitalism attends closely to self-interest, both in a lowly and in a large-minded way. Lincoln, for example, was speaking of the copyright and patent clause of the US Constitution (Article I, Section 8), which allows to inventors, for a limited time, the right to royalties from their own creations. This, it has turned out, is a magnificent and dynamic way of serving the common good, through stimulating heroic exertions on the part of inventors and discoverers.

In this respect, capitalism has taken the measure of human beings more exactly than any other social system. It has found a better way than any other to link self-interest to the advancement of the common good. Capitalism is by no means the Kingdom of God. It is a poor and clumsy human system. Although one can claim for it that it is better than any of its rivals, there is no need to give such a system three cheers. My friend Irving Kristol calls his book *Two Cheers for Capitalism*. One cheer is quite enough. It is not the paradise of mankind, but it is a highly moral system, nourishing the best that is in us and checking the worst.

4. Checks and Balances

A capitalist system is only one of three systems that compose the free society. The economic system is checked and regulated by the institutions of both of the other two systems: the political system; and the moral-cultural system. Capitalism does not operate in a moral vacuum. Those who fail to live up to the moral standards implicit in its own structure are corrected by forces outside it. Thus, capitalism supplies only some of the moral energy present in the free society as a whole. There are also moral energies in the democratic polity to call it to account, as well as moral energies in families, in the churches, in journalism, in the cinema, in the arts, and throughout civil society to unmask its failings.

This is as it should be. For the free society is not constructed for saints. There are not enough saints on earth to people a free society. A free society must make do with the only moral majority there is – all those citizens called to a noble destiny, indeed, but often weak, tempted, egocentric, and quite imperfect. In imagining the free society of the future, it is important not to be utopian. This

century has built too many graveyards in its so-called utopias. The citizens of the twenty-first century will warn one another against the mistakes of the twentieth.

In addition to systemic checks and balances, there must also be internal checks. James Madison wrote that it is chimerical to imagine that a free republic can survive without the daily practice of the virtues of liberty. A free society depends upon habits of responsibility, initiative, enterprise, foresight, and public-spiritedness. It depends upon plain, ordinary, kitchen virtues. Citizens who are dependent, passive, irresponsible, and narrowly self-interested will badly govern their own conduct, and their project of self-government is bound to fail.

It is, therefore, a crucial act of statesmanship to identify and nourish the cultural habits indispensable to the practice and survival of liberty. The free society cannot be made to thrive on the basis of any set of moral habits at all. Where citizens are corrupt, dishonest, half-hearted in their work, inert, indifferent to high standards, willing to cheat and to steal and defraud, eager to take from the public purse but unwilling to contribute to the commonwealth, and entirely self-aggrandising, self-government must fail. Many people of the world, in fact, have shown themselves incapable of making the institutions of liberty work. The road to liberty, Count Alexis de Tocqueville warned, is a long one, precisely because it entails learning the habits of liberty. Not any habits at all will do. The road is narrow and the gate is straight.

5. *Three Parting Wishes*

As you build a free society here in Russia, beginning in this great city of St. Petersburg, let me voice three wishes:

- a. that this new society will be rooted in the realism that underlies democracy – in limited government, under the rule of law, protecting the rights of persons and minorities, and internally guarded by well-designed checks and balances against every form of power;
- b. that your new economy will be rooted in the realism of the free competitive economy, in which rights to personal economic creativity will not be repressed but, on the contrary, will flourish for the common good of all; and

c. that the ancient spirit of envy will be decisively defeated, by the attractiveness of a dynamic society of freedom and opportunity for all.

Your struggles toward these noble goals are our struggles. Our families share them with your families here, and with the whole human family everywhere on earth. Your example in recent weeks has been an inspiration to all of us. It has made all of us want to do better. That is a great gift from you to us, for which we thank you deeply.

Appendix.

It was not only in the twentieth century, but also in the nineteenth, during the lifetime of Karl Marx, that capitalism was raising the living standards of the poor. Real wages for workers in Great Britain increased by 1,600 percent between 1800 and 1900 (while the population doubled). Note the following tables indicating other beneficial changes in Great Britain.

TABLE 1: Rise in Wages in Britain (1833-83)

<i>Occupation</i>	<i>Place</i>	<i>Wages fifty years ago, per week</i>		<i>Wages Present time, Per week</i>		<i>Increase or decrease, amount percent</i>			
		s.d.		s.d.		s.d.			
Carpenters	Manchester	24	0	34	0	10	0	(+)	42
"	Glasgow	14	0	26	0	12	0	(+)	85
Bricklayers	Manchester	24	0	36	0	12	0	(+)	50
"	Glasgow	15	0	27	0	12	0	(+)	80
Masons	Manchester	24	0	29	10	5	10	(+)	24
"	Glasgow	14	0	23	8	9	8	(+)	69
Miners (daily wage)	Staffordshire	2	8	4	0	1	4	(+)	50
Pattern- weavers	Huddersfield	16	0	25	0	9	0	(+)	55
Wool scourers	"	17	0	22	0	5	0	(+)	30
Mule- spinners	"	25	6	30	0	4	6	(+)	20
Weavers	"	12	0	26	0	14	0	(+)	115
Warpers and beamers	"	17	0	27	0	10	0	(+)	58
Winders and reilers	"	6	0	11	0	5	0	(+)	83
Weavers (men)	Bradford	8	3	20	6	12	3	(+)	150
Reeling and warping	"	7	9	15	6	7	9	(+)	100
Spinning (children)	"	4	5	11	6	7	1	(+)	160

TABLE 2: Annual Consumption of Food per Person in Britain (1840, 1881)

<i>Articles</i>		<i>1840</i>	<i>1881</i>
Bacon and hams	Pounds	0.01	13.93
Butter	"	1.05	6.36
Cheese	"	0.92	5.77
Currants and Raisins	"	1.45	4.35
Eggs	No.	3.63	21.65
Potatoes	Pounds	0.01	12.85
Rice	"	0.90	16.32
Cocoa	"	0.08	0.31
Coffee	"	1.08	0.89
Corn, wheat, and wheatflower	"	42.47	216.92
Raw sugar	"	15.20	216.92
Refined sugar	"	Nil	8.44
Tea	"	1.22	4.58
Tobacco	"	0.85	1.41
Wine	Gallons	0.25	0.45
Spirits	"	0.97	1.08
Malt	Bushels	1.59	1.91

SOURCE: Mill (1884: 520)

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IV.

The Crisis of the Welfare State: Economics and Ethics¹

1. Introduction: The Death of Socialism

All over the world, lapel buttons inscribed 'communism' have begun to fall like autumn leaves; but not only buttons marked 'communism', also those inscribed 'socialism'. Thus, the collapse of 'real existing socialism' in its stronghold in the former Soviet Union is still rippling through the structures of international socialism. Economically, this collapse was radical. It proved that as an *economic* theory socialism was fatally flawed. It indicated too, that the socialist analysis of capitalist (and democratic) regimes was incorrect. According to the primal socialist theory, which had been presented as 'scientific', capitalism must necessarily fail – inevitably, without doubt. This so-to-say indestructible 'scientific' certitude lent socialist theory the characteristics of a quasi-religious faith. With the collapse of its empirical correlative, this faith also collapsed.

But the collapse of that faith affected not only Communism but all those other doctrines and ideals that were infused with socialist economic principles, including Western socialism and even social democracy. Communist and socialist parties around the world have been changing their official names, usually to some euphemism such as 'social democratic'. Yet, even supposing that these shifts are being executed in good faith, it is doubtful that the social democratic ideal of Europe is invulnerable. Indeed, whether it is so, and to how great an extent, is today a burning question: is there not today, beyond the crisis of socialism, a crisis of the welfare state, that is, of the very flower of social democracy? The *fact* seems undeniable. What are we to make of it?

¹ Originally published in Novak (1993a).

2. *The Erosion of Responsibility*

No less an authority than the Second Vatican Council in its Pastoral Constitution on the Church in the Modern World *Gaudium et Spes*, after having praised the new 'body of social institutions dealing with insurance and security' that came into existence after World War II, and after having urged that 'family and social services, especially those that provide for culture and education, should be further promoted,' issued a prescient warning, whose full force is only now becoming apparent:

...care must be taken to prevent the citizenry falling into a kind of *passivity* vis-à-vis society, or of irresponsibility in their duty, or of a refusal to do their fair share (Second Vatican Council 1965: #69 [emphasis added]).

'Passivity' – that is the exact word. Already in 1965, a widespread uneasiness was growing. The Achilles heel of social democracy is that it cedes too much responsibility to the collective and thus, in large part, ignores what Pope John Paul II has come to call the 'subjectivity' of the human person; that is, the very core of personal responsibility, on which human dignity is grounded.

Is it an accident, then, that in the Netherlands and Germany, today's high unemployment figures would be even higher, if all those currently unemployed workers who are collecting disability benefits for 'bad backs' were also included (Robinson 1993)? The false excuses and malingering which have everywhere dimmed the idealism of the social democratic state have made the latter prohibitively expensive. Plainly, also, the state has been corrupting the populace and diminishing the sense of personal responsibility by offering benefits too generous to be resisted.

In social democracy, two errors against a Christian anthropology have been committed. First, idealists have overlooked the moral weakness that commonly vitiates a personal sense of responsibility, an observable fact described in the phrase 'because of original sin'. This is the one Christian teaching for which faith is not necessary: it is so amply confirmed by human history. From this moral weakness, none of us is exempt. The benefits of the welfare state are

far too easy to obtain and too attractive to resist. We come to feel (by a multitude of rationalisations) that the state 'owes' us benefits, that we are as 'entitled' to them as anybody else, and that we would be foolish not to take what is so abundantly offered whether, strictly, we need it or not. The welfare state corrupts us all.

Second, in an exaggerated reaction against individualism – beyond what is strictly called for – social democrats not only tend to overemphasise 'community', but also too uncritically to identify 'community' with the 'collective'. Then, as the primary agent of community, they choose the enlarged administrative state. Some do this even while warning themselves against the dangers embedded in the collective (that it denies the subjectivity of the person, etc).

Two results follow from these errors. On the one hand, the subjective sense of personal responsibility has atrophied, breeding the 'passivity' that the Council Fathers warned against. On the other hand, the administrative state has more and more swallowed up the functions that used to be exercised by civil society. Mediating institutions have become enfeebled. The principle of subsidiarity has been violated as the higher levels crush the lower.

All this brings to light precisely the fate that the nineteenth century liberal philosopher and Catholic aristocrat, Count Alexis de Tocqueville, said would befall democracy in the modern world; that it would give rise to a 'new soft despotism'. In place of those first generations of self-reliant democrats whom he so much admired, doing for themselves what in the *ancien régime* their ancestors had relied on the state to do, the welfare clients of the future, Tocqueville foresaw, would yield to the soft maternal tyranny of the state, if only it promised to care for all their slightest needs. In place of the self-disciplined, community-minded individuals of its beginnings, stoutly obeying that 'first law of democracy' – the principle of association – the democracy of a later time would dissolve into interest groups fighting for position to obtain favours from government. This entire passage from *Democracy in America* [excerpted in the appendix] deserves to be quoted in full, studied, and even memorised, as it diagnosed exactly the false arguments by which the self-governing communities promised by democracy in its beginnings would eventually surrender to despotism:

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 government as its shepherd.

Like de Tocqueville, Pope John Paul II has also been an astute student of the democratic experiment, and has closely watched the worm of a self-destructive logic boring into it. His brief analysis of the crisis of the welfare state in paragraph 48 of *Centesimus Annus* is a masterpiece in miniature. This section appears in the chapter, 'State and Culture', and follows brief sections that discuss, in turn, 'a sound theory of the State' the destruction of civil society by the totalitarian state; and the rule of law, together with the protection of individual and minority rights. Paragraph 48 begins by noting that the activity of a market economy

...presupposes sure guarantees of individual freedom and private property, as well as a stable currency and efficient public services. Hence the principal task of the State is to guarantee this security, so that those who work and produce can enjoy the fruits of their labours and thus feel encouraged to work efficiently and honestly.

The Pope then discusses rare but necessary interventions of the State in the economic sector. Even here, he emphasises that 'primary responsibility' in this area belongs not to the State but to

individuals and to the various groups and associations which make up civil society.

According to the Pope, the State may have the duty to intervene in the economic sector in certain strictly limited circumstances. He does not yield to absolute *laissez-faire* – no Christian could. But he warns the State to keep its interventions brief ‘so as to avoid removing permanently from society and business systems the functions which are properly theirs, and so as to avoid enlarging excessively the sphere of State intervention to the detriment of both economic and civil freedom.’ Immediately, there follow two long sentences on the crisis of the welfare state, beginning thus:

In recent years the range of such intervention has vastly expanded to the point of creating a new type of state, the so-called ‘Welfare State’. This has happened in some countries in order to respond better to many needs and demands, by remedying forms of poverty and deprivation unworthy of the human person. However, excesses and abuses, especially in recent years, have provoked very harsh criticisms of the Welfare State, dubbed the ‘Social Assistance State’. Malfunctions and defects in the Social Assistance State are the result of an inadequate understanding of the tasks proper to the State.

Here the Pope articulates three principles by which the interventions of the welfare state are to be limited: the principle of subsidiarity; the law of unintended evil effects; and the principle of personal moral agency.

The principle of subsidiarity is well-known, often ill-understood, and even more often violated in practice. Here is how the Pope states it:

A community of a higher order should not interfere in the internal life of a community of a lower order, depriving the latter of its functions, but rather should support it in case of need.

The principle of unintended evil effects seems to be an expansion of the famous principle articulated by Adam Smith and Friedrich von Hayek: the law of unintended consequences. The good intentions of the State often go awry, due to the weak and often misguided epistemology of collectives, as well as to institutional arrogance. The welfare state gives rise to four unintended evils in particular:

By intervening directly and depriving society of its responsibility, the Social Assistance State leads to [1] a loss of human energies and [2] an inordinate increase of public agencies, which [3] are dominated more by bureaucratic ways of thinking than by concern for serving clients, and which [4] are accompanied by an enormous increase in spending. [enumeration added]

The Pope's third principle for criticising the welfare state highlights the role of what Edmund Burke called 'the little platoons' of human life:

In fact, it would appear that needs are best understood and satisfied by people who are closest to them and who act as neighbours to those in need. It should be added that certain kinds of demands often call for a response which is not simply material but which is capable of perceiving the deeper human need.

Better than the Social Assistance State, in other words, is assistance provided on a more human scale by the self-governing institutions of civil society in which the subjectivity of the persons giving help encounters the subjectivity of persons in need. Human need is seldom merely material. *Cor ad cor loquitur*. Abyss cries out to abyss, as the Psalmist put it. There is a depth in each human narrative over which the Social Assistance State merely glides and statistics merely skate.

In displacing the action of human charity, the Social Assistance State imports four evils worse than its purported cure. In displacing the 'little platoons' that give life its properly human scale, the Social Assistance State generates a 'mass society', impersonal, ineffectual,

counter-productive, and suffocating of the human spirit. In displacing the vitalities of a thick and self-governing civil society, the Social Assistance State diminishes the realm of responsible personal action.

Indeed, reflecting on paragraph 48 of *Centesimus Annus*, we see the many ways in which the modern welfare state has been, although well-intentioned, misconceived. Without question, it has done much good, particularly for the elderly, and yet in many nations its results for younger adults, and especially for marriage and family life, have been highly destructive. The proportion of children born out of wedlock has hit unprecedented levels in many nations, including the United States, Great Britain and Sweden.²

Indeed, this may be the most devastating piece of evidence in the case against the welfare state. Quite unintentionally, contrary to its intention, social democracy demonstrably destroys families even in cultures in which the family has been the primary basis of strength for millennia.

Furthermore, a growing chorus of voices – including leading social democrat voices such as that of the late Gunnar Myrdal – bewail the visible decline in personal responsibility, work habits, and moral seriousness. Such habits are being lost; plain garden variety virtues such as decency and kindness and personal reliability are coming to be perceived as old fashioned; and persons of sturdy character are being ridiculed by those to whom the ideal of character was never even taught. We have forgotten how to form a public culture that gives instruction in the virtues without which the free society cannot draw air into its lungs.

Perhaps we may summarise the argument thus far by underlining several lessons gleaned from the experiment in welfare democracy these last 50 years:

- a. human needs are more than material, and the concentration of the welfare state on material benefits and material security is misconceived;
- b. terms such as 'community' and 'social' apply best to the little platoons of civil society rather than to the state;

² In toting up who is poor, the US Census Bureau does not count such welfare benefits as medical care, housing, food stamps or, in general, non-cash assistance, for all of which the poor are eligible.

- c. 'community' does not mean 'collective'; like the totalitarian state, the collective is not only impersonal but often crushes the subjectivity of true community;
- d. apart from personal responsibility, no democracy can long survive; democracy requires 'individualism rightly understood,' nourished on public-spiritedness, as described by de Tocqueville in *Democracy in America*;
- e. the main agent of social justice is not the State but, rather, civil society (Novak 1993b: Chp.3). To focus social justice primarily on the State is a most costly error – costly both morally and economically; and
- f. there is no question of doing away with the good achieved by the welfare state; but surely it could be much enlarged and achieved much more humanely by a *better conceived* welfare program, using society as its proximate instrument rather than the State.

Some of the benefits of the welfare state – particularly, some of its social insurance schemes – do seem to contribute to a necessary sense of security and stability among populations that during the twentieth century suffered quite enough turmoil. But a great mistake seems to have been made in anchoring these insurance mechanisms in a grand state apparatus, necessarily bureaucratic and inefficient, rather than in more imaginative patterns that would have strengthened civil society and personal responsibility (McGinley 1993). Might not social security savings for most of the elderly, for example, have been organised through the private sector, with state assistance (perhaps through vouchers) only for the indigent? And why was health insurance not vested in individuals, through tax-exempt portions of their salaries, with a wide range of private sector choices open to them as to how to invest their personal health funds?

A concrete example may lock in the point. A family with a retarded child might be given an income tax deduction of (say) \$5000 every year to care for that child at home and even to purchase equipment necessary for that care. The total institutionalisation of that child, by contrast, would cost the State (in the U.S.) in excess of \$33,000 per year. Such an adjustment would surely help the child, the family, and civil society, while also saving money for the State.

The more general point is this: under social democracy, the

State has been assigned too much. The State takes up too much social space. The human subject and civil society have been allowed too little space for the free exercise of personal responsibility and social invention.

3. The Moral Basis of Liberty

Everywhere, in brief, the welfare state has overpromised – and underachieved. It costs too much and it is generating a ‘new soft despotism’. Unless social democratic societies are seriously reformed, on the basis of a more realistic and pragmatically sound humanism, the fate of democracy itself is in doubt. For the project of self-government depends on the capacity of citizens to govern their own passions, urges, habits, and expectations. If they cannot govern their own lives individually, how can they be successful in self-government as a republic? The project of self-government is moral – or not at all. If so much is agreed upon, we must next probe the moral dimensions of liberty.

When we use the word ‘liberty’ in the context of discussing the free society, for example, we do not mean any liberty at all. As those French liberals knew who designed the Statue of Liberty in New York harbour in 1886, the *liberté* of the French Revolution (understood as licentiousness) called forth tyranny. True freedom, as Lord Acton said, is the liberty to do what you *ought* to do, *not* the liberty to do what you ‘feel’ like.

Of all the creatures on earth, only humans do not act solely from instinct. They are made in God’s image, for they alone are able through reflection to discern for themselves their duties and obligations and to take on board their own responsibility for meeting them. Thus, to practice liberty rightly understood is to accept responsibility for one’s own acts. This gives humans dignity.

In this spirit, the Statue of Liberty designed by French liberals showed a woman (wisdom) bearing in one hand the upraised torch of reason (above passion, ignorance, and bigotry) and in her other hand a book of the law, as if to say, ordered liberty is liberty under reason, liberty under the law. As the American hymn puts it:

Confirm thy soul in self-control,
Thy liberty in law.

The problem with the welfare state is that it has been so designed that it has become a substitute for responsibility, freedom, self-control and law. Its administrative system has been deliberately constructed to be amoral ('non-judgmental'). As one Swedish official commented: 'You can no longer speak publicly in Sweden about nuclear families being "good" because there are now so many single parents, and you don't want to make them "feel" bad' (Popenoe 1991: 73). It neither demands nor rewards responsible behaviour. It corrupts the virtuous and pays equal benefits to those who spurn virtue. It treats citizens as if they were pre-moral beings; it makes passive clients of them all. It has been designed as if fashioning responsible citizens were none of its concern. Indeed, it subsidises irresponsibility and thus makes a mockery of those citizens who in an old-fashioned way still believe in their own capacities for independence, hard work, and self-reliance.

4. Conclusion: The Reconstruction of Free Institutions

For more than a century, socialism misled the human imagination by riveting attention on the State. Correspondingly, the mistake of social democracy lay in channelling man's social nature into the State and in suppressing personal responsibility and inventiveness. But the true dynamo of self-government among free peoples is *not* the State, but the acting person and civil society. Thus the pursuit of social justice today requires a new and more promising line of attack: close attention to personal responsibility and civil society. Public welfare systems need to be redesigned so as to draw forth from individual persons, their families and their associations their best (most inventive, most creative) efforts. Wherever possible, state bureaucracies need to be replaced by the institutions of civil society. If social justice means 'objective social arrangements', then it is *not* a virtue but a form of regime. If, however, social justice is a virtue, then it can *only* be practiced by *persons*. Today we have need of more social justice *as a virtue*.

For serious humanists as well as serious Christians and Jews,

the underlying practical question is as follows: does the welfare state draw out personal responsibility and creativity? The answer would appear to be 'no'. A better way lies in maximising personal responsibility and greatly strengthening the mediating institutions of civil society.

In Britain, Australia, and New Zealand, as well as in my own country, much serious thinking has gone into how to turn this bare intuition of a new *mystique* into a substantial *politique*. In such matters, citizens of each country must think for themselves and invent their own concrete solutions. All of our nations has more than enough to do if democracy is to survive in the 21st century.

Appendix

Excerpt from Tocqueville (1966: 690-693).

...Thus I think that the type of oppression which threatens democracies is different from anything there has ever been in the world before. Our contemporaries will find no prototype of it in their memories. I have myself vainly searched for a word which will exactly express the whole of the conception I have formed. Such old words as 'despotism' and 'tyranny' do not fit. The thing is new, and as I cannot find a word for it, I must try to define it.

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 fellow 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 he feels nothing. He exists in and for himself, and though he still may 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 is alone 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, father-

like, it tried to prepare its charges for a man's life, but on the contrary, it only tries to keep them in perpetual childhood. It likes to see the citizens enjoy themselves, provided that they think of nothing but enjoyment. It gladly works for their happiness but wants to be sole agent and judge of it. It provides for their security, foresees and supplies their necessities, facilitates their pleasures, manages their principal concerns, directs their industry, makes rules for their testaments, and divides their inheritances. Why should it not entirely relieve them from the trouble of thinking and all the cares of living?

Thus it daily makes the exercise of free choice less useful and rarer, restricts the activity of free will within a narrower compass, and little by little robs each citizen of the proper use of his own faculties. Equality has prepared men for all this, predisposing them to endure it and often even regard it as beneficial.

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 government as its shepherd.

I have always thought that this brand of orderly, gentle, peaceful slavery which I have just described could be combined, more easily than is generally supposed, with some of the external forms of freedom, and that there is a possibility of its getting itself established even under the shadow of the sovereignty of the people.

Our contemporaries are ever prey to two conflicting passions: they feel the need of guidance; and they long to stay free. Unable to wipe out these two contradictory instincts, they try to satisfy them both together. Their imagination conceives a government which is unitary, protective, and all powerful, but elected by the people. Centralisation is combined with the sovereignty of the people. That

gives them a chance to relax. They console themselves for being under schoolmasters by thinking that they have chosen them themselves. Each individual lets them put the collar on, for he sees that it is not a person, or a class of persons, but society itself which holds their end of the chain.

Under this system the citizens quit their state of dependence just long enough to choose their masters and then fall back into it ...

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Index

- Acton, Lord, 91
Anti-capitalist bias, 20-21, 26,
47-48
Aquinas, Thomas, 4
Burke, 8, 88
Camara, Helder, 3
Cardenal, Ernesto, 3
Centesimus Annus, 4, 6, 53, 56,
86-88
Commercial morality, 29, 38-41
Commercial society, 73-77
 and civility, 75
 and class mobility, 75
 and envy, 75-76
 and future-orientation, 75
 and human capital, 75
 and international
 cooperation, 74-75
 and peace, 74
 and servility, 74
 and sympathy, 75
Corporations,
 and the Bible, 15
 and democratic
 capitalism, 33-37
 and monasteries, 14
 and multinationals, 28-29
 and practical
 intelligence, 53
 as mediating structures,
 16-17
 definition of, 16
 growth of, 25-26
 history of, 14
 morality of, 36-37
Creative subjectivity, 51-52, 58
Democratic capitalism,
 and accountability, 34-35,
 77-78
 and autonomy, 49
 and community, 54-57, 58
 and 'Constantinianism',
 21-22
 and corporations, 13, 33-37
 and decline of materialism,
 50
 and freedom, 34
 and human creativity,
 51-53, 58
 and immateriality of
 preferences, 50
 and income inequality,
 63-65
 and intellectuals, 26-27
 and liberation of the poor,
 58-61, 63-64
 and political freedom, 69
 and practical intelligence,
 25, 26-27, 31, 74
 and sociality, 32
 epistemic argument for, 48
 ethical vision of, 7, 36-37,
 73
 moral case for, 72-77
 practical case for, 70-72
 versus mercantilism, 15, 40
 versus social market, 62
Distributive justice, 32-33
Ecclesiastical statements, 17
Finnis, John, 2

IN PRAISE OF THE FREE ECONOMY

- Gilder, George, 50
 Gray, John, 48-49
 Harries, Richard, 48
 Hayek, F.A., 4
 Human personality (as *imago Dei*), 7, 51-52, 53, 73
 Immigration patterns, 58-59, 61
 Individualism,
 and Christianity, 31-32, 84
 Japan, 53-54
 John Paul II, 4, 51-58, 84, 86-88
 and the business firm,
 56-58
 Johnson, Paul, 14
 Joint stock companies, 14
 Liberalism,
 and Catholicism, 5-6
 Liberation theology, 3-4
 Liberty,
 and morality, 89-91
 and self-government, 90
 three kinds, 69
 Lonergan, Bernard, 16, 30-31
 Lubac, S.J. Henri de, 3-4
 Madison, James, 78
 Mises, Ludwig von, 4
 Newbigin, Leslie, 47-48
 Original sin, 31
 Poverty,
 and capitalism, 32-33, 58-61, 63-64, 69-70
 and ideology, 18-19
 and satiable needs, 49
 sources of, 18-19
 Pluralism,
 and churches, 19
 and democratic capitalism,
 38
 and traditional societies,
 19, 29
 Preston, Ronald, 61-64
Rerum Novarum, 51
 Scarcity, 33
 Social Democracy, see Welfare state
 Socialism,
 critique of, 2
 fall of, 83
Sollicitudo Rei Socialis, 53
 Smith, Adam, 73
 Subsidiarity, 87-88
 Templeton Prize, 1
 Theology of economics, 6, 13, 18, 29-30
 elements of, 29-33
 intellectual heritage, 5
 Theological trends, 1, 3
 and anti-capitalist bias,
 20-21
 and economics, 20
 Tocqueville, Alexis de, 8, 78, 85-86
 Traditional societies, 19, 29
 Transfer payments, 19-20
 Utopianism, 35, 77-78
 Weber, Max, 5, 18, 20
 Welfare state,
 and civil society, 8
 negative effects of, 4, 7-8, 59-60, 84-87, 88-91
 Williams, Oliver and John Houck, 38-40



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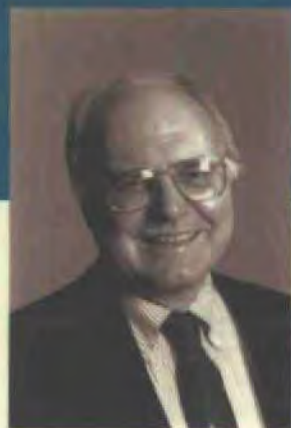
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