

STARTING OVER: THE REBUILDING OF CATHOLIC
SOCIAL TEACHING ON ECONOMICS

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In defending the free market against those who believe that the Church condemns such a thing, I have noticed that usually my opponents use what is called in some Protestant Biblical defenses a “proof-text” methodology. That is, my interlocutors take a sentence from an encyclical, remove it from all of its contexts--textual, historical and theological--recite it, and give it a “literal” interpretation; one which suits their side of the discussion.

Two examples come readily to mind. In defense of the idea that the Church “teaches” that for a state to be legitimate, the Catholic religion must be the official religion, they cite the following section from Leo XIII’ encyclical, *Immortale Dei* (1885), no. 6:

Since, then, no one is allowed to be remiss in the service due to God, and since the chief duty of all men is to cling to religion in both its teaching and practice—not such religion as they may have a preference for, but the religion which God enjoins, and which certain and most clear marks show to be the only one true religion—it is a public crime to act as though there were no God. So, too, it is a sin for the State not to have care for religion, as a something beyond its scope, or as of no practical benefit; or out of many forms of religion to adopt that one which chimes in with the fancy; for we are bound absolutely to worship God in that way which He has shown to be his will. All who rule, therefore, should hold in honor the holy name of God, and one of their chief duties must be to favor religion, to protect it, to shield it under the credit and sanction of the laws, and neither to organize nor enact any measure that may compromise its safety.

To the merely casual reader, this certainly appears that Pope Leo is saying that you must have the true Faith recognized and enforced by the State. But a close reading and the political context reveal otherwise.

For over a hundred years prior to the writing of this encyclical, the Church was under formal attack from governments of both Catholic and non-Catholic countries. Pope Pius IX thought by issuing condemnations the things these governments and the thinkers who inspired their actions that the tide could be stemmed.¹ It was not. So, Leo was dealing with an attempt to remove Catholicism from the current states. Catholicism was under attack in the French Third Republic (1870-1940) following the Dreyfus affair, and Bismarck had been attacking the Church through harsh anti-Catholic laws in Prussia starting in 1873. Leo's teaching was very gentle, but clearly was an attack on anti-clericalism and the radical separation of church and state, especially as practiced in France and Germany at the time. There is no authoritative statement here about the legitimacy of government; merely a moral exhortation. All of what he says is correct, if it is interpreted properly: religion is healthy for the state; the state is supposed to protect it; Catholicism is the religion founded by Christ, and everybody has a moral obligation to follow the true religion.² There is no idea here that the state needs to force everybody to be Catholic, or that the Catholic faith must be the official religion of the realm. But of all religions, Catholicism, since it is the true one, must be protected.

The second example is drawn for a section of Pius XI's encyclical, *Quadragesimo Anno*, written in 1931. Pius writes in sections 105-108:

In the first place, it is obvious that not only is wealth concentrated in our times, but an immense power and despotic economic dictatorship is consolidated in the hands of a few, who often are not owners but only the trustees and managing directors of invested funds which they administer according to their own arbitrary will and pleasure.

This dictatorship is being most forcibly exercised by those who, since they hold the money and completely

¹ See Pius's encyclical *Quanta Cura* and the attached *Syllabus of Modern Errors*

² This is perfectly consistent with Vatican II's *Dignitatis Humanae*.

control it, control credit also and rule the lending of money. Hence, they regulate the flow, so to speak, of the life-blood whereby the entire economic system lives, and have so firmly in their grasp the soul, as it were, of economic life that no one can breathe against their will.

This concentration of power and might, the characteristic mark, as it were, of contemporary economic life, is the fruit that the unlimited freedom of struggle among competitors has of its own nature produced, and which lets only the strongest survive; and this is often the same as saying those who fight the most violently, those who give least heed to their conscience.³

Is this authoritative teaching, or really the pope's own view of current events based on his own economic paradigm, about which he has no necessarily unique knowledge? It is almost difficult to explain here the economic confusion in this section of the encyclical. In this case, managers of money cannot invest funds "according to their own arbitrary will and pleasure." All wealth has alternative uses, hence those with discretionary cash will invest it where they expect the most return. Managers of money, which by the way is not their own, must seek the highest return or be fired by the people who do own it. The highest return will come from the most sound investments—taking into account not only expected yield, but also risk factors. It would be like flushing someone else's money down the toilet if they invested it "according to their own arbitrary will and pleasure." So, a man may be under pressure from his wife to invest in his brother-in-law's hair-brained business scheme, but he would be crazy to do so. Competent money managers will not lend money to those who are not likely to pay it back. Of course, there are unforeseen events. This is why business people read papers like the *Wall Street Journal*, or the *Investors Business Daily* and the like. These papers

³ It should be noted that in the paragraph, the Holy Father seems to accept the evolutionist theory of economics voiced by Oswald Spengler, whose theories were accepted by the Fascists and the Nazis.

help them see trends over which they have no control and of which they can take advantage, or avoid if necessary. So the laws of economics dictate where the money will be invested, not the arbitrary will of the managers.⁴

In addition, one must ask oneself whether, unless one has an M.B.A., would one trust oneself to invest one's money, or would one let it be invested by professionals? Does the Vatican invest its money? Yes. The Prefecture of the Economic Affairs of the Holy See controls and invests most of the money belonging to the Holy See.

Be that as it may, the ghost author of the encyclical, a German Historical School economist, was really railing about financial cartels in Germany.⁵ It is difficult to tell, however, if there were any money lending cartels in Germany at the time of the Encyclical. Professor Wilfried Feldenkirchen show that there were many cartels in Germany since the late 1800's, but does not mention any were in the financial or lending areas.⁶ The following graph certainly shows that the number of cartels in Germany expanded at an astounding rate from 1911 to 1926, when a decline began, but these were all industrial.

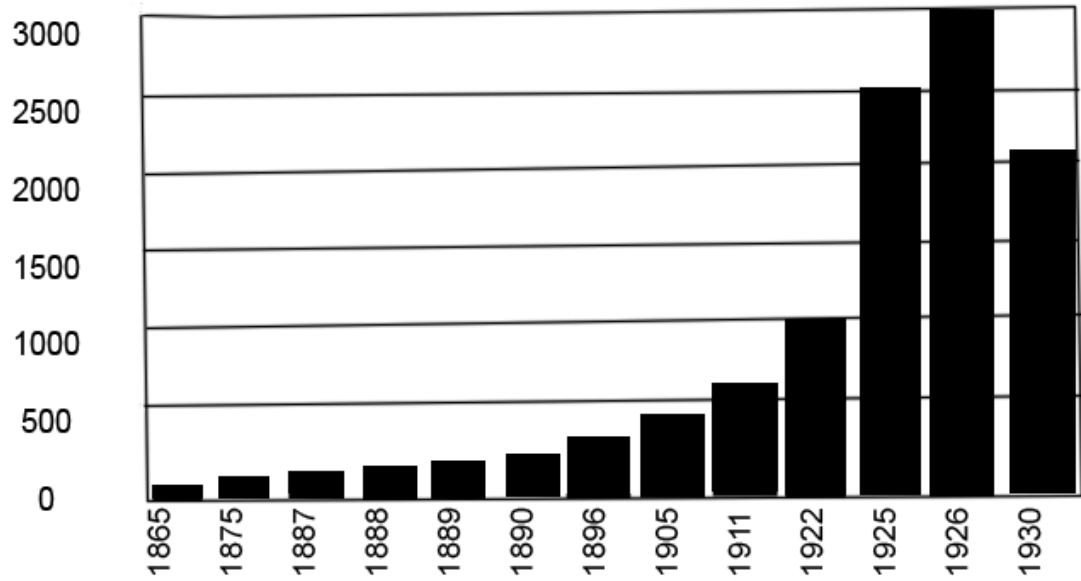
⁴ See, for example, Frederic S. Mishkin, *The Economics of Money, Banking and Financial Markets* (New York: Harper-Collins, 1995), chapters 4-8.

⁵Father Oswald Nell-Breuning, S.J. In his book, allegedly explaining the encyclical, he discusses the failure of some German banks, and attributes them to a ruthless fight for power struggle among banks for dominance. See, his *Reorganization of Social Economy: The Social Encyclical Developed and Explained*, ed. and trans. by Fr. Bernard W. Dempsey, S.J. (New York: Bruce, 1936), 272-276. Nowhere does Nell-Breuning refer to the central banks role in these failures.

⁶Wilfried Feldenkirchen, "Competition Policy in Germany," *Business and Economic History* 2nd series XXI 1992: 257.

GRAPH 1

Number of Cartels in Germany



The industrial cartels were the natural outcome of corporatist theory which was pushed in Germany by the German Historical School economists, including Father Heinrich Pesch, S.J., in the mid-1800s. In this case, what Pius XI is complaining about is that his own chickens have come home to roost, because later in the Encyclical, he would recommend such a corporative system. Mussolini, who took total power in 1925, installed such a system. Father Oswald Nell-Breuning, S.J., by his own admission the author of the Encyclical, actually expresses regret at using the term “corporatist” in the Encyclical because people (naturally) equated it with Mussolini’s system.⁷ Well, duh! In any event, Michael Novak discussed Pius’ and Nell-Breuning’s perspectives, saying that the collapse of two big German banks and the stock market crash bear out Pius’ analysis of the brutishness of the market.⁸

What lessons can be drawn from this for the believer? These practical aspects of these encyclicals cannot be taken at face value merely because a pope writes them.

Firstly, since the popes rarely if ever refer to specifics as what exact historical situations to which they refer and the countries in which they are occurring, verification is very difficult, if not downright impossible.

Secondly, the theory behind many of these assertions is frequently ideological, not real economics nor even theological. As such, as I have shown elsewhere, facts are manipulated to fit the ideological point.⁹

⁷Father Nell-Breuning, S. J., “*Quadragesimo Anno*,” *Stimmen der Zeit*, no. 87 [1971]: 294, quoted in Michael Novak, *The Catholic Ethic and the Spirit of Capitalism* (New York: The Free Press, 1993), 254.

⁸Michael Novak, *Catholic Social Thought and Liberal Institutions: Freedom with Justice* 2nd ed. (New Brunswick, New Jersey: Transaction Books, 1989), 112-114.

⁹William R. Luckey, “The Intellectual Origins of Modern Catholic Social Teaching on Economics: An Extension of a Theme of Jesús Huarta De Soto” Austrian Scholars Conference, Auburn University, March 23-25, 2000.

Thirdly, without going through every encyclical, it can be said that they have minimal value for guidance of Catholics, as opposed to other methods. At times it appears that every pope feels that he must issue one or more social encyclicals, or he is not doing his job. The presumption seems to be that problems at the social level require *general* discussion, guidance and condemnation. Various branches of a school of thought are lumped together and the least defensible branch is taken as typical and properly condemned with the rest of the school. Or, at times, mere human failings due to original sin are seen as part of a false philosophy, which needs to be attacked.

The confusion in the method of writing social encyclicals is shown in the recent attempts to collect quotations from the encyclicals and arrange them according to topic.¹⁰ It becomes clear after a while that papal writings on social and especially economic questions began with an attempt to give guidance on particular situations as the Church authorities saw it at the time, given current resources, and ends up trying to establish, perhaps unwittingly, or at least some people trying to establish, a consistent “corpus” of social teaching.

In this author’s opinion, this attempt has been at least a partial failure. One major reason is that in Social Teachings one is not generally dealing with revelation, but with applying eternal principles to concrete political, social and economic questions, in which the Church authorities have no special expertise outside of moral teaching itself, which is derived from natural law and Divine positive law. A case in point would be that it would be immoral for a company to fail to pay a worker the wage he was promised, but moral to pay him his actual discounted marginal revenue product. One tries in vain to recall a

¹⁰Especially thorough is Pontifical Council for Justice and Peace, *Compendium of the Social Doctrine of the Church* (Washington, D.C.: United States Conference of Catholic Bishops, 2005).

section like this in an encyclical.¹¹ In addition, the Church looks at specific social, political and economic questions through the lens of the current state of the social sciences, or in the case of economics, up to the time prior to *Centesimus Annus*, through the eyes of the German Historical School. So, Pius XI's *Quadragesimo Anno* recommends a corporate state as a just economic order, but it was dropped like a hot potato from there on.

When dealing with revealed truths, truths which can be known only through God's revealing them, it is admitted that there can be some development. John Henry Cardinal Newman, in his famous *Essay on the Development of Christian Doctrine*, responded to Protestant accusations that the Catholic Church actually invents doctrines, showed that the Church can have new insights into revealed doctrines while the doctrines remain unchanged. He gave a number of rules which should be used to tell if a development of a doctrine is authentic.¹² Newman's theology of development was accepted by Vatican II.¹³ While Catholic Social Teaching surely has some of the elements of consistency that are similar to that in the doctrinal statements, the fact of the changing circumstances and the changing insights of the social sciences, not to mention the very real possibility of seeing social, political and economic problems through ideological glasses, make the development of a "corpus" of Catholic Social Thought problematic.

¹¹See, *ibid.*, p. 132-133.

¹²Newman, *An Essay on the Development of Christian Doctrine*. 6th ed. (Notre Dame, Indiana: University of Notre Dame Press, 1989), 169-206.

¹³Christopher Hollis, *The Achievements of Vatican II* (New York; Hawthorn Books, 1966), 114. Some examples of this type of development concern our understanding of the inner life of the Blessed Trinity, are, for example, Richard of St. Victor, *Book Three of the Trinity* in *Richard of St. Victor: The Twelve Patriarchs; The Mystical Ark; Book Three of the Trinity*, trans. by Grover A. Zinn (New York: Paulist Press, 1979), chap. II; and Mary Timothy Prokes, *Mutuality: the Human Image of Trinitarian Love* (New York: Paulist Press, 1993), 137.

What is needed to resolve these dilemmas is an encyclical which bases its teaching on the foundational principles of Catholic moral theology, the 10 commandments and the Beatitudes, while abstaining from the acceptance of any (especially) economic theory per se.

The main elements of such an encyclical can now be suggested:

1. A brief theological and philosophical treatise of the nature of the human person. This treatise will take into account the developments over the last hundred years or so in Phenomenology and Personalism as developed by John Paul II and the Lublin School of Thomism. It would show man as a creature having reason and free will. He can discern the good with his reason and his will is truly free so that he can freely choose the good. It would recognize that his knowledge and choice of the good are tainted by Original Sin, which darkened his intellect and weakened his will, but also that many choices in life are not clear, and more often than is supposed, are not simplistic choices between good and evil, but between two competing goods of varying and possibly hidden values.

2. Man is created with certain drives or impulses the satisfaction of which is supposed to produce human flourishing and are arranged in a hierarchy—the lower meant to serve the higher. If the hierarchy is violated, the human being is lead away from happiness and flourishing. So, the instincts of self-preservation, feeding, shelter, etc., are not valued for themselves but allow men to pursue higher level ones, such as the desire for family, the respect of others, the need for a well ordered relation with God, and happiness and admittance into the inner life of the trinity.

3. But many of the choices we make are economic. These choices are the responsibility of the adult, who makes them ostensibly for his own flourishing. The Vatican II *Decree on Religious Freedom, Dignitatis Humanae*, is an appropriate guidepost for this and is based on the *dignity of the human person*. The core of *Dignitatis Humanae* has never been thoroughly unpacked by anyone, and can be extended theologically to defend a free economy. The document states:

Further, in dealing with this question of liberty the sacred Council intends to develop the teaching of recent popes on the inviolable rights of the human person and on the constitutional order of society. (*Dig. Hum.*, # 1)

While the document discussed this subject in relation to religious liberty, which obviously is man's greatest freedom, it never got around to the discussion of human rights in general and the constitutional order of society as it seemed to promise. The implication is that man must be allowed to discover religious truth without coercion,¹⁴ if man must be allowed to believe and practice the faith of their conscience without hindrance from anyone, whether public or private except as a matter of public order, he ought to be free to decide, again within the limits of public order, the other, lesser, things, which he believes lead to human flourishing, even if it is to his own detriment. This does not exclude the right of the church and other to guide, persuade and even morally condemn some choices, nor does it imply a moral approval of all choices. But just as in man's search for religious truth, it must not be coerced choice.

4. Having said this, the Church has a duty and a right to give *moral* guidance to man's choices, where morality is in question. Here is where this new document must take into account the developments in moral theology of the last hundred years or so, and

¹⁴The document does not forbid evangelization, guidance and free and open discussion of religion as well as practice.

are seen in the encyclical of Pope John Paul II, *Veritatis Splendor*. In this latter document, the Pope states that “the *morality of acts* is defined by the relationship of man’s freedom with the authentic good.” This good is established in man by Divine wisdom. (*Ver. Spl.*, # 72, italics in original) In other words, the moral law is meant to bring man to the fulfillment of the hierarchy of existential ends which God placed in him for his flourishing and ultimate happiness. There is no carping in this encyclical about how the world is going down the drain as we see in so many past encyclicals,¹⁵ which are so worded, not because of eternal truths, but because the events of the times were so harrowing.

5. Lastly, this new encyclical should focus on *specifically* moral aspects of social, political and moral actions in the same style of *Evangelium Vitae*, and avoid painting with too broad strokes. Popes need to remember, that painting with broad strokes opens the door to the enemies of true liberty, friends of statism, and anti-capitalism that many of us Catholic Austrian economists have had to bear with all these years.

In writing an encyclical in the style just outlined, the Church would be doing a pastoral service to aid the human flourishing discussed above and re-gain much of its credibility with, at least, economists.

¹⁵Sections of *Libertas Praestantissimum* of Leo XIII (1888), or *Mirari Vos* of Gregory XIV (1832)