

Markets, Inequality and Poverty: The Response of *Rerum Novarum*

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The topic I was given to write about – Markets, Inequality, and Poverty – is very similar to a standard question that has appeared on the United Nations National Competitive Examination for economists. A standard mainstream answer would argue that free and competitive markets are essential. Only such markets can provide the necessary incentives for the private sector to generate economic growth. And without economic growth it would be nearly impossible to reduce poverty. But markets are not the whole answer. The State may be needed to insure that this growth actually reduces poverty as well as remedy any problems of excessive inequality that it might create. In essence, such essays frequently focus on the proper role of the State in economic affairs. I decided, however, that I did not want to give the standard answer. Given that this paper is being written for an international gathering of representatives of Jesuit Colleges and Universities² and given St. Ignatius Loyola's devotion to the Holy Father, I thought that I would try to discern how the Apostolic See might morally view the role of markets in affecting inequality and poverty. The response of the Holy See to this question has been complex and nuanced. Dependent on the empirical context, the moral judgment of Rome can range from harsh condemnation to outright praise. To make this paper manageable I will focus principally on the response of Leo XIII given in his encyclical *Rerum Novarum* (1891).

Method

With the help of the Compendium of the Social Doctrine of the Church (2004), I will first summarize the basic principles of the framework that the Holy See uses to judge the morality of

markets. Through Leo XIII's *Rerum Novarum* I will then review Rome's application of this framework in the particular empirical context of the church coming to terms with the industrial revolution in the late 1800s. This foundational encyclical set the stage for all future Papal writings on the "social issue" up to and including the present time. For those of you who favor a more prominent role for the State in economic affairs, you might want to re-read Paul VI's *Populorum Progressio*. It was written in 1967 during the era of Decolonization when many governments in Africa and Asia were just establishing themselves in the midst of the Cold War. For those of you who favor a more prominent role for the private sector in economic affairs, you might want to re-read John Paul II's *Centesimus Annus*. It was written in 1991. The Berlin Wall and the Soviet Union had collapsed and the free market system was the envy of all. In my conclusion I will make mention of Benedict XVI's latest encyclical *Caritas in Veritate*. Both Leo and Benedict share some very intriguing ideas about the importance of civil society as an alternative to both the market and the State.

The Moral Framework of the Holy See

I will simplify the Holy See's moral framework for addressing social issues into three basic principles – human dignity, solidarity and subsidiarity.

The most bed rock principle of not only Papal, but of all religiously motivated social teaching I know about, is the transcendent dignity that must be accorded to each and every human person. This moral principle is based on a rich multidimensional view of the human person. At its most fundamental level it comes from the belief that God created man and woman in his divine image. The additional Christian belief that God became man, suffered, and died in order to redeem each one of us only reinforces how the Holy See views the human person and

the importance of human dignity. One aspect of each human person that the Holy See frequently focuses on is our transcendent nature. “The human person is open to the fullness of being, to the unlimited horizon of being.”³ For example, Leo XIII applies this thinking when he judges grinding work to be inhumane and unjust because it can limit the transcendent nature of a human person by stupefying his or her mind.⁴ Another aspect that the Holy See frequently focuses on is the uniqueness of each human person. The human person is unrepeatable. Because of his or her uniqueness, every human person has something original to contribute to society and is a “subjective entity.”⁵ As a subjective entity, every human person should never be an object or an instrument or a means to an end. For example, the economy exists to provide benefits and opportunities for, among others, workers, consumers, and investors. Workers, consumers, and investors, however, should not exist for the benefit of an economic system. To protect the subjective nature of the human person, individuals have rights and duties independent of the State, one of these rights being the right to private property. Given the extreme importance accorded to the human person, every social issue must therefore be judged by how it affects the transcendent dignity of the human person.

Another basic moral principle is solidarity. Just like the concept of human dignity, it can also be derived from viewing the human person as transcendent. But this time the person transcends himself or herself not to reach towards the infinite and the divine but towards the neighbor. In this view the human person is seen as a social creature interconnected through a social network of family, friends and strangers. It is the principle of solidarity that requires us to work for the common good and to give preference to the poor and marginalized. It is also a principle that places limits on the right to private property and holds that ultimately all created things belong to God and should be shared fairly.

Finally, there is the concept of subsidiarity. Because of the uniqueness of the human person, every individual, every family, and every intermediate social grouping has something original to offer to the whole of society. Their legitimate rights and duties must be protected from interference and abuses by higher levels of authority. In fact higher levels of authority must respect, protect and foster the rights of individuals, families, and intermediate groups so that they can better contribute to society. Subsidiarity creates an environment that encourages initiative, participation, freedom and responsibility on the part of individuals, families and the various intermediate groups that make up what today we call civil society.

Using the three concepts of human dignity, solidarity and subsidiarity as well as their wide ranging implications, the Holy See has developed over the course of a little more than a century an expanding literature of papal encyclicals that uses this moral framework to analyze the “social issue” of the day. I now turn to the first attempt in 1891 by the Pope Leo XIII to use this framework and allow the Catholic Church to come to terms with the pressing moral issues created by one of the most important events in human history – the industrial revolution.

Leo XIII and Unbridled Capitalism

In 1891, Leo XIII wrote, “the first thing of all to secure is the unfortunate working people from the cruelty of men of greed, who use human beings as mere instruments for money making. It is neither just nor human so to grind men down with excessive labor as to stupefy their minds and wear out their bodies.”⁶ In viewing the terrain of the late 1800’s, Leo saw a situation where a few privileged individuals monopolized various industries while the many industrial workers were reduced to a near slave like condition. Based on considerations of human dignity and solidarity, Leo found the unbridled capitalism of the right in his day inhumane and unjust.

He also found the proposed remedy of the left, the socialism and communism of his day, just as inhumane and unjust. Leo strongly defended the right to private property. Of course his support for private property was not absolute. Ownership of private property should be regulated in accordance with the common good. His support was based on a pro-poor argument, not all that different from Hernando de Soto's.⁷ Leo argued that those who wanted to abolish private property "strike at the interests of every wage-earner, since they would deprive him of the liberty of disposing of his wages, and thereby of all hope and possibility of increasing his resources and bettering his condition."⁸ He also argued that "the sources of wealth themselves would run dry, for no one would have any interest in exerting his talents or his industry."⁹ With state ownership of the means of production, Leo felt that the role of the state in society would be too overwhelming. Such a state would destroy the space needed by individuals and intermediary groups to carry out their legitimate roles in society. In particular he was afraid that the family, the basic unit of society, would be absorbed by the state. Clearly the principle of subsidiarity played an important role in his analysis.

Besides supporting private property, Leo also opposed the left's view of the relationship between capital and labor. He stated that the concept of class warfare was a "great mistake."¹⁰ It was irrational and in direct contradiction of the truth to believe "that the wealthy and the working men were intended by nature to live in mutual conflict."¹¹ Based on the principle of solidarity he argued that "it is ordained by nature that these two classes should dwell in harmony and agreement."¹² Capital could not succeed without labor and labor could not succeed without capital. Mutual agreement would provide good order, while perpetual conflict would eventually result in "savage barbarity."¹³

Leo's solution to the social injustice and the potential for widespread violence during his time was to chart a middle course between unbridled capitalism and state ownership of the means of production. He felt that the Church had a very valuable role to play as a trusted intermediary between labor and capital. He was obviously doubtful that the free play of markets would achieve a just wage for workers. Property was not equitably divided and there was a wide chasm between the wealthy and the workers. He argued that the wealthy dominated the political and economic structures of his day and could manipulate these structures, including markets, for "its own benefit and its own purposes."¹⁴ As an alternative to revolution and violence, Leo explored several tools that society could use to address this serious imbalance of power so that workers could have a more equitable share of property and influence. He concluded that "the most important [tool] of all are workingmen's unions."¹⁵

What is intriguing is how Leo's solution differs from the standard solution that most mainstream economists would propose. Today we would view this situation in terms of a market failure, namely a situation of monopoly or oligopoly. Basically an individual firm or a very few firms are able to dominate various markets and set prices solely for the benefit of their own narrow purposes. These actions are done by causing serious harm to others including consumers, workers and so on. Today we expect the State to intervene in these situations of market failure by breaking up trusts, prosecuting collusive practices, and regulating the setting of prices. But if the State was a pawn of the industrial class, such intervention would never occur. To use the words of John Kenneth Galbraith, Leo XIII saw the need to create a "countervailing power" to the power of the industrial elite.¹⁶ Without the existence of a countervailing power it would be very difficult for the State to intervene on behalf of the exploited worker.

While Leo acknowledges a legitimate role for the State in remedying these situations, his primary solution was self-empowerment on the local level. In this case it was through the formation of labor unions. He further suggested that representatives of labor with representatives of business could come together on a more equal footing through the formation of various boards. Many countries in Europe, Africa and Asia currently use this type of a system to negotiate economic and labor policy before it is implemented by government. Leo hoped that by building up civil society, through various institutions where differences could be negotiated, progress towards a more just and equitable society could be achieved without resort to violence. Clearly the Pope's solution to this social issue was based on the principles of both solidarity and subsidiarity. Both the principles and their implications for building up civil society has become a constant theme throughout Catholic social teaching as well as through Catholic social action. For example, much of the work of Caritas Internationalis,¹⁷ through its various national member agencies, is directed at building up the capacity of local communities to address a wide range of social, economic, and political concerns that hinder human advancement and development. It is also a theme that Benedict XVI has highlighted in his latest encyclical, *Caritas in Veritate* (2009). "The exclusive binary model of market-plus-state is corrosive of society, while economic forms based on solidarity, which find their natural home in civil society without being restricted to it, build up society."¹⁸ Benedict obviously believes that the fostering of civil society is critical and essential to creating a humane and just economic system. Just improving the "logic of exchange" (market) or the "logic of public obligation" (state) can not defeat underdevelopment. We also need a whole other "logic of gratuitousness and communion" (civil society).

Conclusion

Drawn from scripture and tradition, Papal social teaching is primarily based on a rich and multidimensional concept of the human person (i.e., transcendent, unique, social, etc.). Out of this concept is derived the basic moral principles used to analyze a social issue. Of primary importance is the transcendent dignity of the human person and related to it are the principles of solidarity and subsidiarity. In applying these principles to economic markets and their role in alleviating poverty and fostering a more equitable society, both Leo XIII in 1891 and Benedict XVI in 2009 come to the same applied solution to the issues of their day. Their solution does not lie within the parameters of the traditional debate over the proper role of the market versus the State. Their solution is not even considered within the traditional debate. In the Papal tradition the actual solution is both within us and among us through the fostering of a strong and dynamic civil society where individuals and families are empowered and local communities are created.

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³ *Compendium of the Social Doctrine of the Church*, page 72.

⁴ *Rerum Novarum*, paragraph 42.

⁵ *Compendium ...*, page 73.

⁶ *Rerum Novarum*, paragraph 42.

⁷ Hernando de Soto. *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books, 2000.

⁸ *Rerum Novarum*, paragraph 5.

⁹ *Ibid*, paragraph 15.

¹⁰ *Ibid*, paragraph 19.

¹¹ *Ibid*, paragraph 19.

¹² *Ibid*, paragraph 19.

¹³ *Ibid*, paragraph 19.

¹⁴ *Ibid*, paragraph 47.

¹⁵ *Ibid*, paragraph 49.

¹⁶ John Kenneth Galbraith. *American Capitalism: The Concept of Countervailing Power*. New York: Houghton Mifflin Company, 1952.

¹⁷ *Caritas Internationalis* is a grouping of 165 national Catholic charitable organizations spread around the globe dedicated to human advancement and development.

¹⁸ *Caritas in Veritate*, paragraph 39.