

Has the Catholic critique of Capitalism stalled?

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World financial markets are reeling from the revelations about the lies, fraud and corruption in Enron, WorldCom and other major US firms and leading auditing firms, with directors awarding themselves hundreds of millions of dollars in bonuses even as their firms returned huge losses. Enron's Kenneth Lay took an extra US\$101 million in the months before Enron's collapse. WorldCom's Bernard Ebber 'lent' himself \$US366 million before his firm collapsed. There are many other examples of this grab for money by top executives, even though their firms performed wretchedly. The ten top earning executives in 2000 in the USA averaged \$154 million a year, 20 times more after inflation than the top ten averaged in 1980. How is it that larceny and corruption on such a scale should only now become apparent? What are the implications for a capitalist culture that tolerates such absurd levels of remuneration on the plea that the market sets the wage levels? What remains of the so-called 'free market' when oligopolistic power is so concentrated and the monitoring system is so massively corrupted?

Adam Smith would not be at all surprised at this turn of events, for he profoundly distrusted merchants and businesspeople in his day, and was strongly opposed to oligopolies and monopolies, with their excessive concentration of economic and political power.

No doubt governments will intervene to try to prevent such a crisis occurring again, but the current fiasco highlights a growing dilemma in western capitalism, that a 'free market' cannot operate properly without a suitable framework of ethics and institutional supports. In particular, the New Right dogma which extols contractual justice at the expense of social and distributive justice plays into the hands of the rich and powerful, and allows them to wink at inequalities and the poverty of so many.

Here I wish to look at how this has come about, and why the churches, particularly the Catholic Church, need to be much more vigorous in defending social and distributive justice, and the rights of the poor and disadvantaged. I was expecting that a new social encyclical would do precisely this on the anniversary of *Rerum Novarum* in 2001.

Why no new encyclical?

To my knowledge there has been no official comment on the fact that there was no encyclical to commemorate the 110th anniversary of Pope Leo's landmark document, *On the Condition of the Working Class (Rerum Novarum)*. Leo's 1891 encyclical brought the Catholic Church into a new and more positive engagement with the social problems arising from the industrial revolution, and galvanised the energies of many Catholics to join the struggle for social justice and workers' rights.

As we know, *Rerum Novarum* was long overdue but it nevertheless authenticated a longer tradition of Catholic social activism and articulated a core of social philosophy and positions around which Catholics could mobilise. Leo's document addressed issues of the day and began the long series of papal efforts to reinvigorate the social thinking of Catholics. Later papal social documents, many of them on anniversaries of *Rerum Novarum*, took it as their point of reference as they addressed new issues in various historical contexts. Pope John Paul II's 1991 encyclical, *Centesimus Annus*, followed the collapse of the Soviet Union and was a striking confirmation of key elements of *Rerum Novarum*, particularly in its critique of Marxist versions of socialism and its proposals for the reform of capitalism.

A question then arises why the Pope did not issue another social encyclical in May 2001. And what conclusions should we draw from this?

I have no insider knowledge on why no new encyclical appeared, so what I say here is speculation on my part. First it would be a mistake, in my view, to conclude that the Pope considers the tradition of social encyclicals has outlived its purpose, or that he thinks the major issues have been solved. As Vatican watchers know, the Vatican is intensely engaged in promoting concern about social problems of hunger, labour issues, human rights, peace and world development. Practically every other day there is some significant statement on these issues from the Pope or his representatives at the United Nations or other international bodies. Consider the Vatican's involvement in trying to promote dialogue between Muslim and western countries, or its support for efforts to alleviate hunger and disease in developing nations. It is true, of course, that the Pope himself is now very frail. Nevertheless, even since 1991 his speeches on social issues would fill several volumes. Especially important have been his World Day of Peace messages on 1 January each year, as well as many of his speeches overseas, crafted for difficult situations in many countries.

Second, it may be that the pope considered that the Year of the Great Jubilee, 2001, already had so much happening that it was unnecessary to draft a further encyclical. Indeed, the Pope had intended to be launched during the Jubilee Year the still forthcoming compendium of Church teaching on social justice. I understand that this compendium is nearing completion now.

A further aspect should be kept in mind, that the core papal documents on the Great Jubilee have social concern at their very heart, especially The *Third Millennium* (1994) and his 2001 document, *At the Beginning of the New Millennium*. In contrast with earlier Church social documents which relied on a natural law philosophical approach, John Paul's recent documents revolve around the Jubilee message in Luke 4, when Jesus announces he has come to bring Good News to the poor and liberty to captives. The Pope has repeatedly highlighted the social significance of these passages for the Church today, confronted with such massive problems of hunger, peace, justice and the environment.

John Paul was a noted philosopher himself, and of course recognises the importance of systematic and coherent philosophical thinking. This makes his concentration on these Scriptural passages all the more significant, bypassing philosophical disputes to go to the heart of God's revelation in the Gospel, of God's passionate concern for the disadvantaged and suffering.

It is no overstatement to insist that if we have not understood that this is who God is, and what is asked of us, then we have understood little. Recall the prophets Amos and Isaiah telling the people of Israel that God despises their prayers and is disgusted with their offerings when they oppress the poor. Instead, 'learn to do good, search for justice, help the oppressed, be just to the orphan, plead for the widow' (Isaiah 1: 13, 17).

The welcome implication of this emphasis on the Jubilee theme as absolutely central to Christian faith is that it is not sectarian. Not only can Christians of all denominations affirm this notion of God wholeheartedly, but those of other major world religions can also endorse it. Even people with no religious belief can affirm the ideals of justice and peace implied in this image of God.

It is important to note how heavily the Pope has been stressing the social implications of the faith. As Desmond O'Grady pointed out recently, Pope John Paul considers that the fundamental thrust from the Second Vatican Council was to turn Catholics '*outwards to tackle society's problems*'. It is a message many Australian Catholics are finding difficult to hear, if an overly devotional emphasis sometimes given to the Jubilee program of 2000 is any indication.

To determine just what the search for peace, justice and human rights means in practice, of course, and how to bring about conditions for the flourishing of people of all beliefs, are the tasks confronting us.

In the current context of globalisation and the astonishing gap in living conditions between the rich and poor nations, one of our most pressing tasks is to harness our immense economic and social resources to eradicate hunger and the worst forms of poverty. Leading economists have assured us that for the first time in history we have the resources to do this. This is an astonishing claim, which other ages would have dismissed as utopian. But if it is true, it is imperative we seize this opportunity.

Libertarian economics: Friedrich von Hayek

However, world efforts to eradicate poverty have been handicapped by a philosophy of economic individualism that has captured the imagination of many leading businesspeople and economic institutions. Perhaps the best known exponent of this philosophy is Friedrich von Hayek (1899-1992), who dismissed the concept of social justice as illusory, insisting that the market was the best and fairest allocator of resources. Hayek considered social justice as '*humbug*', and '*one of the greatest obstacles to the elimination of poverty*'.

A member of the famous Austrian School of Economics, Hayek moved to London in the early 1930s, becoming a British subject in 1938. He worked at the University of Chicago from 1950 to 1962. Hayek opposed Keynesian policies after the Second World War when it seemed economics had found the answer to increasing prosperity for the great bulk of the population, along with full employment. At the time Hayek was regarded as eccentric in his anti-Keynesian views. But with the failure of Keynesian policies during the 1970s, Hayek was given a new hearing, winning many over to his political and economic views, which continue to have a significant influence in the capitalist world. For his theories about money and on the inter-relationship between economic, social and institutional phenomena, in 1974 he shared the Nobel Prize in economics with the development economist, Gunnar Myrdal.

A libertarian in philosophy, Hayek also argued against the notions of social and distributive justice on the grounds that only commutative justice based on a freely agreed contract could be reasonable. He adopted a Kantian position that the mind could not know any objective standard of justice, and hence only the obligations of justice freely entered into could be binding.

We have experienced the influence of this philosophy in Australia, often termed 'economic rationalism', when it assumes that market determinations will produce the most beneficial economic outcomes without considering also the social implications of various policies. Recent economic policies have campaigned to

- dismantle or reduce many of the measures sustaining the welfare state, including public housing, health benefits and education spending
- reduce social support benefits and entitlements
- increase compliance requirements for those on entitlements
- weaken trade unions in an effort to reduce wage levels and pare back industrial awards,
- privatise as much as possible of public industries or services, and break up natural monopolies to create a putative market, sometimes with only limited success
- attempt to reduce tax rates for upper income groups and extend indirect taxes.

Such policies need not always be mistaken, but need to be assessed carefully to ensure that they do not carry over into a rejection or winding-back of distributive justice.

Down-playing distributive and social justice?

Even some Catholic writers, like Michael Novak and his neoconservative colleagues, have been strongly influenced by Hayek and his admirers. Some of these Catholics work for US think-tanks and organisations generously funded by private financial interests. They have been vigorous critics of aspects of papal social teaching and the statements of the US Catholic bishops on social and economic affairs, particularly to do with social justice or distributive justice. Such a well financed critique of official Catholic social teaching by these Catholic intellectuals is a new phenomenon for English-speaking Catholics, and has confused some about what the Church formally holds on capitalism.

Hence this debate urgently needs to be clarified between, on the one hand, the ideological proponents of the free market almost as a moral mechanism which dispenses with the need to question the allocation of wealth and resources, and rejects the notions of social and distributive justice; and on the other hand, those who argue that the market requires a moral and institutional framework to ensure that outcomes are just. The Catholic Church, along with other religious bodies, is among those arguing strongly for the latter view.

Formal Catholic views on free-market capitalism

It is difficult to summarise the Catholic Church's response to capitalism during more than a century. There have been major changes in the various forms of capitalism over that time, and enormous developments within some of these forms to create institutions and affirm values to share wealth more equitably. Particularly after the trauma of the Depression and the Second World War, public opinion in the western democracies strongly supported the expansion of the welfare state and gave a high priority to securing full employment.

Despite these seismic changes in the forms of capitalism, there are a number of aspects in the Church's critiques that have remained steady. It developed its thinking about social and distributive justice as the basis for its ethical critique of the changes in capitalism. It also denied that economics was a value-free 'science' in the positivist sense, and strongly opposed the utilitarian philosophical assumptions underlying much economics.

Since the time of Leo XIII, the Catholic Church maintained a double critique of Marxian socialism on the one hand, and of capitalism, in as much as it violated distributive justice and was based on a philosophy of economic individualism.

Leo XIII had inherited the scholastic tradition of social thought that defended the right to private property, but he wanted this right extended so that all people could share in its benefits, particularly the working class (*Rerum Novarum*, #65). He was appalled by the extreme inequality whereby wealth and resources were concentrated into the hands of a few, imposing 'a yoke of slavery' on the masses (#6). He insisted that a contract was not valid if the bargaining power of the parties was too disproportionate, and so insisted that workers could form unions to augment their bargaining position. Workers had a right to a living wage, enough to support their families and provide for old age or sickness (#63-65). The state must intervene to ensure that the rights of workers were protected (#54).

Leo used the terms 'economic liberalism' as a synonym for Manchester or 'laissez-faire' capitalism to typify the versions of capitalism to which he most objected. The term 'economic liberalism' functions in Church documents almost as a Weberian 'type' and can be confusing for English-speaking audiences for whom 'liberalism' does not have such heavy ideological and elitist overtones as it had in Europe.

The term 'social justice' was first used by Pope Pius XI in the 1920s, and in 1931 in his social encyclical, *Quadragesimo Anno*, which as the name indicates was issued on the fortieth anniversary of *Rerum Novarum*. Writing at the depth of the Great Depression, Pope Pius condemned the vast inequalities in wealth and the injustice suffered by the poor, and particularly the Manchester school of economics that allowed wages to fall to subsistence levels. (#54). '*Free competition, kept within just and definite limits, and still more, economic power, must be brought under the effective control of the public authority, in matters appertaining to the latter's competence*', to conform to social justice (#133-34).

As Pope Pius XI used the term, 'social justice' represented a modernisation of Aquinas's notion of 'legal' or 'general' justice, which terms no longer reflected their true meaning. Social justice was the virtue by which individuals directed their acts to the common good.

Later Popes reiterated these positions. Pope Paul VI in *Development of Peoples* (1967) condemned an *'unchecked liberalism'*, *'a system which... considers profit as the key motive for economic progress, competition as the supreme law of economics, and private ownership of the means of production as an absolute right that has no limits and carries no corresponding social obligation'* (#26). *'Without abolishing the competitive market, it should be kept within the limits which make it just and moral', restoring to the participants a certain equality of opportunity'* (#61).

In his *Centesimus Annus*, Pope John Paul II reiterated the Church's critique of capitalism when it excluded most people from any genuine ownership (#6). He said Leo XIII's attack on *'unbridled capitalism'* was still relevant, especially in the Third World. Hence *'it is right to speak of a struggle against an economic system, if the latter is understood as a method of upholding the absolute predominance of capital'*. He favoured a *'society of free work, of enterprise and of participation. Such a society is not directed against the market, but demands that the market be appropriately controlled by the forces of society and by the State, so as to guarantee that the basic needs of the whole of society are satisfied'* (#35). He warned that after the collapse of communism, *'a radical capitalist ideology could spread', blindly entrusting problems to the free development of market forces* (#34). Hence the free market must be subject to *'public control which upholds the principle of the common destination of material goods'* (#19).

In 1993, John Pope reiterated that *'Catholic social doctrine is not a surrogate for capitalism'*, and that the Church had *'always distanced itself from capitalist ideology, holding it responsible for grave social injustices'*.

We could multiply quotes from the Pope deploring the terrible inequalities and injustices between rich and poor countries. In 1999 he lamented that there was no international juridical or normative framework to guide financial markets. On 1 May 2000 he said that the global market needed to be balanced by a *'a global culture of solidarity that is attentive to the needs of the weakest'*

Adam Smith

Neo-liberal defenders of the 'free market' often invoke the mantle of Adam Smith, particularly his doctrine of the 'hidden hand', which they interpret as that the free market would automatically allocate resources most efficiently and hence increase productivity and overall wealth. However, many seem not actually to have read Smith, who did not argue that the market should automatically replace the community's moral judgement about how to secure the common good. Instead, in recent decades Smith has been co-opted by the New Right 'as a sort of Bible' in support of policies that he would very much condemn. This is particularly so in the short-hand language of some of the media and, of course, many politicians.

Smith only explicitly referred to the metaphor of the hidden hand in two places. In *The Wealth of Nations* (1776), he wrote that even though an *individual 'intends only his own gain, and he is in this... led by an invisible hand to promote an end which was no part of his intention...By pursuing his own interest he frequently [my emphasis] promotes that of the society more effectually than when he really intends to promote it. I have not known much good done by those who affected to trade for the public good'*. Smith was not talking about the 'hidden hand' of the market, but of nature, and included in the workings of this hidden hand all the various social, cultural and institutional factors, of which the market was only one.

But in his other, earlier reference in *The Theory of the Moral Sentiments* (1759), Smith had argued that the hidden hand would redistribute wealth more equally: *'The rich... are led by an invisible hand to make nearly the same distribution of the necessities of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing, advance the interest of the society...'*

Subsequent economic experience has not borne out Smith's intuition about an equitable distribution of wealth following from the free market. But it is clear that Smith did not intend his writing on the benefits of the free market, against the mercantilist system of his day, to be used as an ideological weapon to concentrate wealth in the hands of the rich. For Smith's views about dealing with poverty and hunger have been widely misrepresented. He was not of course against free trade, but he did support government intervention to protect the poor.

Smith argued against mercantilism because he realised that governments were constrained by powerful sectional interests to grant them privileges and monopolies that harmed the general wellbeing. As Lubasz comments, Smith wanted to remove such corrupt distortions of the market so that *every* person would be able to use their industry and capital to increase overall production for the benefit of the whole society. Smith vehemently attacked the extortionate practices of the great entrepreneurs and merchants who preyed upon the poor and colluded against the common good to maximise their own self-interest. It is astonishing that in the nineteenth century Smith came to be seen as the advocate of *laissez faire* policies aimed at minimising government intervention in markets. Smith did not argue in favour of small government, but against the domination of government policies by commercial interests. He recognised that governments had to maintain order and provide certain services that private interests could not.

In *Adam Smith in his time and ours: designing the decent society*, Jerry Muller argued that Smith wanted to show that self-love in economics could have desirable outcomes, especially by developing institutions which would discipline the passions and reinforce socially and morally acceptable behaviour, by moving self-love to benevolence and altruism. Smith wanted to increase the welfare of ordinary people, and to use economic policy to expand employment and increase the purchasing power of workers by keeping the price of goods low and wages high. When he died in 1790, Smith left little in his estate as he had given most of his income away in charity, taking care to conceal this at the time. Smith can hardly be blamed for the views of some of his more avid admirers, such as the Adam Smith Institute in Britain or Friedrich von Hayek, who invoke his name to claim that self-interest can be channelled through the market mechanism to produce of itself the best result. Hence in a popular conception, the *'scientific pursuit of free-market efficiency'* minimises or eliminates ethical questions about distribution.

As the Nobel Prize winner, Amartya Sen, wrote in *On Ethics and Economics*, the gap between ethics and economics, as a whole is one of the major deficiencies of economic theory. Sen argued against the assumptions that self-interest maximisation best approximated actual human behaviour and that it led to the best economic outcome. In rejecting the dominant view that ethics and economics could not be closely linked, Sen returned to Adam Smith, who considered the making of money as subordinate to the good for the human being and the State.

However, it is what Sen calls the '*engineering approach*' that has dominated modern economics, impoverishing the discipline by its neglect of normative analysis and of ethical considerations in human behaviour. He rejected the assumption standard in much economics equating rationality with purely self-interested behaviour, instancing Japan as an example of how duty, loyalty and goodwill have been part of its success.

Summary

As a summary of an ethical response to economics, it is hard to improve on the fundamental principles which Oliver Williams identifies in Pope John Paul II's thinking:

The market is an important and necessary mechanism for the production and allocation of resources, but it must be subject to ethical constraints which ensure that the outcomes of exchange satisfy the demands of distributive and social justice, that the basic needs of all are met. The Church has never condemned capitalism itself, but materialism and the failure to situate economic activity within an adequate moral dimension.

The state has an important role to regulate society and the market so that the rights of all are respected. However, it is limited by the duty to respect the dignity of persons, enhance the opportunity for individual freedom and initiative, promote equality of opportunity, and following the principle of subsidiarity, not undertake tasks that can be properly performed by other associations or organisations.

The Church insists that economics belongs within the moral framework of virtue, and such virtue can only be developed through social institutions. The Pope acknowledges that the market itself inculcates many virtues, but he also calls on the family, school, associations and the state to play their roles in sustaining a moral framework.

The Church and Business

While the Church can promote such views, to be fully effective they will require the participation of business and the economics community. This is one of the most immediate difficulties for the Church. In the past business people and entrepreneurs often have not listened to Church spokespeople because of what they perceive as anti-business rhetoric and prejudice in Church social justice statements, for example, when capitalism is equated with exploitation. Yet these are precisely the people who have most experience with how the economy works, and what can be done to improve it. As one US businessman wrote, '*shrill rhetoric*' only alienates business people. He lamented the lack of a forum in which business people and the Church could work more positively together.

The Church must seek ways to communicate its views on social justice

Has, then, the Church's critique of capitalism stalled?

Yes and no. Recent popes and the Vatican have given a strong lead and a long-running critique of '*economic liberalism*', but the Church more broadly has been slow to respond.

On the episcopal level, the lead given by the US bishops in their social documents of the 1980s has not been sustained, especially as the influence of the Catholic neo-conservatives has found some support even among some of their current bishops. Moreover, the US bishops seem to lack the intellectual calibre of the generation before them, particularly to debate competently these areas of public policy.

The Catholic agencies for health, welfare and justice and peace have generally been very active in various parts of Australia, and many Catholic schools and parish groups promote education for justice. While there is a greater acceptance of social justice in the Catholic mainstream, we still lack a rich assortment of Catholic intellectuals and business people able to debate social and economic policy convincingly in the public forum. We also lack associations of Catholics and other Christians prepared seriously to explore the implications of Catholic social thought for living standards, business practice, trade and economic development overseas. How can we draw on the immense expertise among Catholic laity to contribute more solidly to the development of public policy in Australia, particularly in areas relating to the economy, international relations and issues of peace and development?

DISCUSSION

The first session of this workshop discussed the level of remuneration going to CEOs of major companies and the difficulties faced by shareholders in insisting on responsible conduct, in addition to pressures on CEOs to meet exaggerated profit expectations of shareholders. It was suggested that the high rate of casual and part-time positions resulted from difficulties in dismissing employees and the effect of payroll tax. Discussion continued on why many Catholics still do not think that social justice should be a critical issue in our religious consciousness.

The question was raised of the problems arising from church agencies taking on government contracts as employment agencies etc., in lieu of what used to be the work of government departments. Some participants considered that it was not the job of the Church to be carrying out what could be considered essential government functions.

The second session of this workshop discussed the need to recognise the range of Catholic philosophical and theological views on social and economic reform. There was a need to develop forums in which these views could be properly considered and debated. The group also discussed how the considerable skills and expertise in the Catholic lay community could be more constructively tapped. Some thought that there was a lack of adequate networking whereby lay Catholics, acting on their own initiative and responsibility independently of the bishops, could develop and articulate contributions to public debate, especially by publications, conferences and lobbying.

Some considered that they had experienced little leadership on social issues from the pulpit, but that lay people could exercise their own initiatives, as demonstrated with setting up the Bendigo and community banks. Other participants added that more than a 'band aid' approach was needed. Catholics needed to overcome a traditional inertia on social issues to make a more substantial effort to promote a more equitable society.