

# ETHICS AND ECONOMICS: A CATHOLIC PERSPECTIVE

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I am grateful for the opportunity to speak to your group about a Roman Catholic perspective on the interrelationship between ethics and economics. The topic is of course immensely complex, covering many cultures over a very long time span, as well as involving rival intellectual and religious traditions and philosophies. Even the eminent economist Jacob Viner found challenging his investigations of this theme in his unfinished work, *Religious Thought and Economic Society*. The topic is no less difficult today.

May I begin by prefacing my remarks with a sketch of the Roman Catholic Church's more recent engagement with social and political issues. The Second Vatican Council, which concluded in 1965, marked a decisive change in the Church's response to contemporary society. For many reasons, the Church in previous centuries had become locked into what sociologists, I believe, call 'reaction formation', adopting a defensive stance against many of the social and intellectual currents around it. Historians called this the 'fortress' Church, which in Australia took the form of what has been called a 'ghetto strategy'. The Church thus tried to form a society within a society, but it depended for its effectiveness on strong sectarian animosities, creating a feeling of clear religious identity, of 'us against them'. For over a hundred years in Australia, this fostered strong and cohesive Catholic communities, but relied on a style of devotionism which largely disengaged the Church from direct involvement in socio-political movements, at least until communism emerged as a threat during the 1930s.<sup>1</sup>

Pope Leo XIII's 1891 encyclical, *Rerum Novarum*, had been a startling break with the defensive posture, and called for a new participation by Catholics in solving the 'Social Question'. The encyclical came just in time to support Catholic involvement in the Labor Movement in Australia. It allowed Catholics to channel their desire for social improvement through the Labor Party, among others, and still support the 'ghetto strategy'.

Meanwhile, reactionary views in Rome soon reasserted themselves. The next pope, Pius X (1903-14), authorised the severe anti-Modernist campaign, which condemned or silenced many of the leading Catholic scholars and theologians, and was a major setback to the Catholic social movements in Europe, especially those close to the moderate socialist movements. Though the anti-Modernist campaign was ended by the next Pope, Benedict XV (1914-22), its effects lingered on for many years. The intransigence of these reactionary groups did immense damage to the Church's efforts to respond more appropriately to social and political problems.

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<sup>1</sup> See my *The Church's Social Teaching: From Rerum Novarum to 1931* (Melbourne: CollinsDove, 1991).

My point in mentioning this history is not to take cheap shots at the past, but to recognise that the Catholic Church has started a long way back in the field in its efforts to engage seriously with ethical issues in economics. The Catholic moral philosopher, Jacques Maritain, whose writings influenced the formulation of the 1948 Universal Declaration of Human Rights, lamented these reactionary mentalities. He said that Marx went around picking up discarded pieces of the Gospel and forged them into a doctrine with immense appeal to those who felt exploited.<sup>2</sup> Maritain considered that the Church in the 19<sup>th</sup> century especially had failed in its duty. Some did try to shift Catholic attitudes, of course, like Frederick Ozanam, whom we know as the founder of the St Vincent de Paul Society. But what is often overlooked is that he was a noted social activist and intellectual, and had formulated a program of Christian Democracy by 1848. Had the Church in France supported such efforts, the history of Europe may well have been very different.

In other words, the Church's response to socio-economic issues is in part a reflection of politics within the Church itself. The Catholic Church has to acknowledge that at times it has failed to understand adequately and live up its declared mission to guide its adherents adequately in their moral decision-making. Pope John Paul II formally recognised this in the year 2000 when he made his Jubilee apologies for past mistakes, adding that this consciousness should make the Church more humble in its work.

Since the Vatican Council, the popes have insisted that the social aspects of the Gospel are not peripheral or optional extras for Catholics, but arise from the core values of the Gospel. Hence the popes have pressed for a much more vigorous engagement with contemporary world problems of hunger, poverty, social justice, peace and development. John Paul II has asked the Church to enter an attentive conversation with others, especially those with special skills like economists and philosophers. The hope is that out of this will come practical programs to tackle urgent problems, and a wider formation of social conscience about how to respond. Every week leading Vatican or other Church bodies or officials issue responses to current social problems along these lines. Pope John Paul in his 2001 letter, *At the Beginning of the New Millennium*, urged the Church to re-evaluate all its activities in the light of the priority Christ gave to the poor, his code word for all who were oppressed, disadvantaged or suffering in so many ways.

This renewed emphasis on social engagement is meant to be flowing through all Catholic institutions and activities, especially the educational bodies and parishes, but I suspect many Catholics, and not a few clergy and even bishops, have not been able fully to integrate these social dimensions into their religious commitment.

I must also stress that while the Church is vigorously encouraging social engagement, it insists that it be based on respect for individual consciences. Hence Catholic teaching would strongly oppose a political mobilisation under the direction of the Church, such as B. A. Santamaria once attempted. The Church is very clear that on the technical matters of economics it claims no special expertise, but it expects lay people to acquire expertise in various areas, and act on their own initiative, in collaboration with people of other intellectual or faith traditions. The Church is not calling for some sort of new crusade but for a more informed conversation about how to bring about a more just society.

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<sup>2</sup> See my *Crusade or Conspiracy: Catholics and the Anti-Communist Struggle in Australia* (Kensington: UNSW Press, 2001) 397-99.

I would like to organise my thoughts in the context of the current debate, in Australia and elsewhere, about the ethics of neoclassical economics, especially from the point of view of distribution, or what is termed in Catholic writing, ‘distributive justice’. As you know, there is a rapidly increasing number of publications on this theme, an urgent one, since the wellbeing of many people and their living standards hinge upon its outcome. After some preliminary remarks, I will trace the developing consciousness of social justice in the Catholic tradition, and contrast this with the philosophical debate at the core of neoliberalism, which has been described as libertarian individualism. I will suggest that the utilitarian foundations of modern economics need to be supplemented by a ‘thicker’ conception of justice, along the lines that Martha Nussbaum has developed with Amartya Sen in their Human Development Index.

### **Who speaks for the Church?**

I have titled this talk, ‘A Catholic Perspective’, since it is difficult to speak of *the* Catholic perspective. It is not immediately clear who speaks for the Church on an ethical critique of economics. Most obviously, forming an inner circle of activity, there is a series of important social documents from the popes, beginning in 1891 with Pope Leo XIII’s encyclical, *On the Condition of the Working Class*, with Pius XI’s Depression encyclical, *Quadragesimo Anno* in 1931, followed by John XXIII’s *Mater et Magistra* in 1961 and his *Peace on Earth* in 1963. But it was the Second Vatican Council (1962-65) that launched the Catholic Church on a new trajectory, emphasising dialogue and collaboration among all people of good will, in the famous phrase at the time, and a more sustained engagement with the great issues of the day, especially concerning social justice, adequate living standards for all, and the elimination of poverty and hunger world wide. Pope Paul VI devoted an entire encyclical to *The Development of Peoples*, and urged local Christian communities to make their own initiatives for social transformation. This resulted in the rapid growth of the movements of liberation theology in many developing countries. Sharp debates broke out in the 1980s about the legitimacy of liberation theology, resulting in a more nuanced use of social analysis, and especially of categories derived from Marxist concepts. It has since permeated through many levels of Catholic consciousness throughout the world, and the Pope himself has attempted in his writings to develop a liberation theology for the entire world, incorporating key concepts – like the preferential option for the poor – into papal social teaching.

Assisting the Pope and as part of the Vatican’s activity in international affairs, key members of the diplomatic corps or Roman authorities, notably the Vatican Commission for Justice and Peace, are involved in key international organisations, like the United Nations, the ILO, UNESCO etc.

Around the papal and Vatican activities is an increasing body of social statements from local churches and bishops’ conferences, particularly those of the United States and the bishops’ conferences of Latin America (CELAM), where most of the world’s at least nominal Catholics live. More or less formally attached to the Church are social justice and welfare organisations who provide some of the key vehicles for the Church’s participation in the formation of public policy.

Another circle of activity occurs through the work of the academics, writers and commentators on Catholic social thought or activity, lay and clerical, involved in developing, challenging or applying Catholic social ideas or programs.

A further circle of activity takes place at the local level where communities and activists are fleshing out Gospel values and Church social principles in their particular situations. Here people are trying in practical ways to improve economic conditions so people can enjoy healthy and happier lives. Numerous activists, lobby or study groups are constantly forming and reforming in response to major issues like East Timor or asylum-seekers.

### **Catholic views on ethics and economics**

Official Church statements are usually expressed in general terms, but incorporate a range of ethical views. First, the Catholic Church speaks most confidently about matters pertaining directly to core issues of faith and the content of Revelation. But it has also developed a body of ethical thinking not purely as an exercise of reason, but within the context of its understanding of Scripture and Revelation. Interpretations of these of course can change with developments in culture and science.

Second, the Catholic Church is not attached exclusively to any particular philosophy or ethical system, and has found many helpful in its history. The thought of Thomas Aquinas was favoured after the 16<sup>th</sup> century, and particularly during much of the 20<sup>th</sup> century, and Augustine in earlier periods. However, more recent Catholic theologians and philosophers have worked within other philosophical traditions. This conversation about how to explain and guide human conduct is a perennial one. Sometimes the Church has neglected this conversation at its peril, and only later had to admit that many of its political or social views were mistaken, as for instance the Church's rejection of political liberalism for much of the 19<sup>th</sup> century.

In recent history, the relationship between religion and economics has been somewhat strained, but I would suggest there are signs of a more promising encounter. Economics has established its autonomy as a discipline with distinctive goals and methodologies, but it also recognises that it is not the source of its own ethical framework. Nevertheless, values are critical in establishing assumptions, purposes and priorities in economics.

From the religious side of the conversation, many of the sectarian divides of the past have dissolved, and there is a greater openness among scholars from the major Christian traditions, and at least some of the major religions, to engage in an open conversation about cooperating as closely as possible with economists to advance human wellbeing.

Religious perspectives on economics are becoming more urgent, perhaps, with the revival of Islam and Hinduism, as well as Buddhism. Many scholars today have abandoned the thesis of a progressive secularisation of society for the foreseeable future, at least on a global level, though this does not seem to be the case for Australia or Western Europe. Certainly, the dialogue between Islam and the West is at a critical stage, and questions about ethics and economics are essential aspects of such a dialogue. The modern encounter with Islam is of special interest to the Roman Catholic Church, since it has been one of the main western interlocutors with Islam for 1400 years, a period when many mistakes have been made on both sides. Much hinges on whether the two world religions can develop a culture of respect and toleration, greater understanding and closer collaboration in the struggle against hunger and poverty.

## Religion and moral vision

The question of the relationship between morality and economic factors has been very important for Christianity and for the Jewish religion before it. The Jewish religion rested on interpretations of the historical experience of the Exodus from Egypt, a socio-political liberation from oppression. The Jewish people knew their God as a God of justice for the poor and oppressed; repeatedly the prophets called the Jews back to the practice of justice, including through the practice of the Jubilee every 50 years, redistributing productive property as the Hebrews depicted God doing when they entered the Promised Land. Ethics and economics were thus embedded in a religious worldview. In Luke's Gospel (ch. 4), Jesus takes the Jubilee metaphor and makes that the core of his message about the Reign of God. It involves good news for the poor, freeing the oppressed, and living by the values of the Jubilee. The Last Judgment scene from Matthew 25 focuses on feeding the hungry, caring for the sick, clothing the naked, giving shelter to the homeless etc.

The early Christian communities took from Jesus this traditional Jewish concern for the poor. Some practised a Christian communism, sharing their goods, in the expectation that Christ's return was imminent. Although this did not occur, the early Christians initially survived as a persecuted Jewish sect, before centuries later trying to adapt to conditions in the declining Roman Empire.

By the Middle Ages, with its new feudal civilisation, Thomas Aquinas was particularly significant in melding the Scriptures, Christian tradition and writers, and the newly rediscovered philosophy of Aristotle, into a theological synthesis which included economic aspects as part of ethics. Economics as a discipline would of course emerge only much later at the time of Adam Smith.

As Albino Barrera noted in a recent article, while there has been much written on the contribution of scholasticism to the development of economic thought, there has been little analysis of the shift in Catholic thinking from the scholastic doctors to the modern social documents.<sup>3</sup> Barrera particularly queried why the Catholic attitude to unions changed, and why the scholastics were not concerned about unjust structures, in contrast to the current Catholic views.

Joseph Schumpeter argued that the lack of concern for institutional change in scholastic thought derived from the concentration on training confessors to guide the consciences of penitents. Jacob Viner also noted that the scholastics focused almost exclusively on the interpersonal aspects of economic behaviour, not on how social institutions affect individual behaviour, 'of the possibilities of deliberate or spontaneous remoulding of existing institutions'.<sup>4</sup>

Another factor has a bearing here, in my view. It is only in more recent times that people have had the perception and resources to reshape societies and economies to secure better outcomes. Gertrude Himmelfarb argued in *The Idea of Poverty* that not until the early industrial revolution in England did the idea of mass poverty change from being an inescapable fact of life about which little could be done to seeing poverty as

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<sup>3</sup> Albino Barrera, 'The Evolution of Social Ethics: Using Economic History to Understand Economic Ethics', in *Journal of Religious Ethics* 27, 2 (Summer 1999), 285. See also his *Modern Catholic Social Documents and Political Economy* (Washington DC: Georgetown University Press, 2001).

<sup>4</sup> See *ibid.*, 286-87.

something to be eradicated.<sup>5</sup> A similar change in perception that poverty on a world scale can be greatly reduced is helping mobilise efforts to bring this about today. Such a change in perception makes a great difference to whether one sees the best way to help the poor as charitable benevolence or social reform.

### **Just price and distributive justice**

Barrera considers the scholastic doctrine of the just price as the critical element in feudal economics, which favoured equity in exchange, and the distributive function of price, over the incentive or allocative function, which would signal the most efficient allocation of resources. The distributive function was given priority since this determined that producers received an income that was proportionate to their role in society. In a period when overwhelmingly production was for local consumption, price was determined by custom and the common estimation of what would recompense people for their effort and also ensure that they had a reasonable standard of living. 'This meant that commutative and distributive justice were simultaneously satisfied in the medieval notion of just price'. Barrera cautions that the medieval notion of 'market' should not be confused with modern ideas of prices set simply by supply and demand, since the scholastic market estimate rested on custom, law and usage.<sup>6</sup>

In contrast with the autarchy of medieval production, a modern economy operates, in large part, independently of the political structure. In contrast with the medieval economy which provoked little thought about production, in the modern economy questions of production and distribution are immensely complex, requiring specialised information, some of which is conveniently indicated in the market price. However, the rise of the modern market eliminated the earlier stress on equity. 'Thus, unlike scholastic economic thought, modern ethical reflection has had to look for nonprice, nonmarket mechanisms for securing distributive justice and has focused on the justness of social structures.'<sup>7</sup>

The change in the nature of markets also explains why Catholic attitudes to unions change. The scholastics opposed unionisation, fearing it would be used as extortion over employers, but insisted that workers be given a just wage as determined by custom, public opinion and the Church's moral pressure. By contrast, since Pope Leo's 1891 encyclical *On the Condition of the Working Class*, the Catholic Church has strongly supported unionism and the right to strike. The papal response to the modern 'Social Question' had been tragically slow to develop, but recognised that the older safeguards for social equity had become ineffectual.<sup>8</sup>

In one particular area there has been a strong continuity between scholastic and current Catholic social documents. Both deny that a free market exchange of itself is morally adequate. The scholastic ideal insisted that an exchange was only morally valid when there was equivalence in exchange, no one was exploited, and all received their due reward according to their social roles. For similar reasons, Catholic thinking still opposes *laissez-faire* theories of market exchange, insisting on reasonable equity in the bargaining relationship, or safeguards to ensure that the wider criteria of social justice

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<sup>5</sup> Gertrude Himmelfarb, *The Idea of Poverty: England in the Early Industrial Age* (London: Faber and Faber, 1985).

<sup>6</sup> Barrera, *op. cit.*, 289.

<sup>7</sup> *Ibid.*, 294.

<sup>8</sup> *Ibid.*, 296.

are observed. The ‘point of contention is the relative importance that should be accorded to the social goods arising from an unfettered market compared to the larger social goals that can be realized only by curtailing its operations.’<sup>9</sup>

Viner is substantially correct that Catholic economic ethics, or at least official Vatican views and manuals, had changed little from the end of scholasticism until 1891, and was ‘largely frozen in its medieval shell’; it was confined to the seminaries, ‘with little influence on or responsiveness to the new tides of secular social thought.’<sup>10</sup> Nevertheless, significant Catholic thinkers were at work in Germany and France especially, preparing the way for later developments.

Part of the reason for the slow response of the Roman Catholic Church to developments in economics was that Catholics in English-speaking countries were largely working class and often perceived as a suspect or alien presence in largely Anglican or Protestant societies in Britain, the United States and Australia. Only from the 1950s did a strong tradition of Catholic social thought manifest itself, more especially in the United States.

### **Developments in papal thought**

Since the time of Leo XIII, the Catholic Church maintained a double critique of Marxian socialism or communism on the one hand, and of capitalism, in as much as it violated distributive justice and was based on a philosophy of economic individualism.<sup>11</sup> Papal teaching has developed around a ‘theologically inspired communitarian social ethic’ bearing on ‘political, familial, economic, and cultural relations in society.’<sup>12</sup>

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’

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<sup>9</sup> *Ibid.*, 300.

<sup>10</sup> Jacob Viner, *Religious Thought and Economic Society: Four Chapters of an Unfinished Work*, edited by Jacques Melitz and Donald Winch (Durham, North Carolina: Duke University Press, 1978), 49.

<sup>11</sup> The classic commentary in English is by J-Y Calvez and J. Perrin, *The Church and Social Justice: the Social Teaching of the Popes from Leo XIII to Pius XII* (London: Burns & Oates, 1961). See also Donal Dorr’s popular critique, *Option for the Poor: A Hundred Years of Vatican Social Teaching* (revised edition. Melbourne: HarperCollins, 1992). For recent commentaries on Catholic social thought, see Oliver F. Williams and John W. Houck, *Catholic Social Thought and the New World Order: Building on One Hundred Years* (Notre Dame IN: Notre Dame Press, 1993); Charles E. Curran, *Catholic Social Teaching: A Historical, Theological and Ethical Analysis* (Washington DC: Georgetown University Press, 2002); and J. S. Boswell, F. P. McHugh and J. Verstraeten, *Catholic Social Thought: Twilight or Renaissance?* (Peeters Leuven: Leuven University press, 2000).

<sup>12</sup> Michael J. Schuck, *That they be One: the Social Teaching of the papal Encyclicals 1740-1989* (Washington DC: Georgetown University Press, 1991).

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 which 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 original meaning. Social justice was the virtue by which individuals directed their acts to the common good.<sup>13</sup>

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). He continued: ‘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).

Hence Catholic social thinking has advocated a wide range of measures to support living standards for workers, including minimum wage legislation and active government policies to encourage employment, income support, unions, mutual self-help associations, profit-sharing, and co-ownership and co-management of industries.

One of the leading Catholic commentators, Fr J. Bryan Hehir, considered that Catholic thought on economics focused primarily on the international economy, setting as its norm the universal destination of property, which governs Church teaching on distributive and social justice, and seeks to meet the basic needs of all while giving special attention to ‘the option for the poor’.<sup>14</sup>

### **Libertarian economics: Friedrich von Hayek**

Efforts to promote greater social equity have been handicapped by a philosophy of economic individualism which 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

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<sup>13</sup> For the use of the term ‘social justice’ in early papal documents, see Jean-Yves Calvez and Jacques Perrin, *The Church and Social Justice: The Social Teaching of the Popes from Leo XIII to Pius XI (1878-1958)* (London: Burns & Oates, 1961), 147 ff.

<sup>14</sup> J. Bryan Hehir, ‘The social role of the Church: Leo XIII, Vatican II and John Paul II’, in Oliver Williams and John Houck, *Catholic Social Thought and the New World Order*, 1993), 40.



resources. Hayek considered social justice as ‘humbug’, and ‘one of the greatest obstacles to the elimination of poverty’.<sup>15</sup>

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. 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 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.<sup>16</sup>

Australia has experienced the influence of this philosophy in Australia, often termed ‘economic rationalism’, which assumes that market determinations will produce the most beneficial economic outcomes without considering also the social implications of various policies. Recent economic policies have intended 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.

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 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 people about what the Church formally holds on capitalism.

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<sup>15</sup> Duncan B. Forrester, *Christian Justice and Public Policy*, (Cambridge: Cambridge University Press, 1997), 146.

<sup>16</sup> See John Gray, *Hayek on Liberty* (Second edition) (Oxford: Basil Blackwell, 1984/86), 72.

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.

### **Adam Smith**

Neoliberal defenders of the 'free market' often invoke the mantle of Adam Smith, particularly his doctrine of the 'hidden hand', which they interpret as meaning that the free market would automatically allocate resources most efficiently and hence increase productivity and overall wealth. However, many of these neoliberals 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.<sup>17</sup> This is particularly so in the shorthand 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 publick good'.<sup>18</sup> 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...'<sup>19</sup>

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, to be used as an ideological weapon to concentrate wealth in the hands of the rich. Indeed he supported government intervention to protect the poor.<sup>20</sup>

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<sup>17</sup> Heinz Lubasz, 'Adam Smith and the "free market"', in Stephen Copley and Kathryn Sutherland (eds.), *Adam Smith's Wealth of Nations: New Interdisciplinary Essays* (Manchester: Manchester University Press, 1995), 47.

<sup>18</sup> Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (London: T. Nelson and Sons, 1887), 184. See also Richard Bronk, *Progress and the Invisible Hand: the Philosophy and Economics of Human Advance* (London: Little, Brown and Company, 1998), 89 ff.

<sup>19</sup> see Bronk, *op. cit.*, 92-93.

<sup>20</sup> Amartya Sen, *On Ethics and Economics* (Oxford: Blackwell, 1992), 26-7.

As Heinz 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.<sup>21</sup> 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.<sup>22</sup>

In *The idea of poverty*, Gertrude Himmelfarb also argued that Adam Smith has been crudely misinterpreted and distorted into an apologist for the unregulated market. His intentions, however, were clearly otherwise, for he believed that the government had to sustain the market and ensure that it worked for the common benefit. Smith abhorred Mandeville's 'wholly pernicious' system which recognised no motive other than self-interest. He also distinguished his idea of sympathy from Hutcheson's 'moral sense' which went to the other extreme; virtue for Hutcheson resided in resolutely opposing one's own interest.<sup>23</sup> (46-7).

The metaphor of the 'invisible hand' was not meant to canonise self-interest, but to argue that self-interest, through a free market, subject to certain constraints, could serve the common good. Smith was deeply concerned about the poor, and saw them as being the chief beneficiaries of his new system. He was 'the first to offer a systematic, comprehensive rationale for high wages', and did not accept that wages had to be kept low to force the poor to work.<sup>24</sup> Unlike the French physiocrats who distrusted the common people and looked to 'enlightened rulers', Smith and the Scottish thinkers did not define human nature in terms of rationality so much 'as interests, passions, sentiments, sympathies. These were qualities shared by all people'. In this context, the general interest would emerge from people freely acting on their own interests.<sup>25</sup>

Smith was not in favour of total deregulation of the economy. He favoured public education, laws against usury and limiting the freedom of bankers to issue notes.<sup>26</sup> He protested against establishing maximum wage rates for the poor, and the injustice of allowing employers to combine but not workers.

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,<sup>27</sup> 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.<sup>28</sup>

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<sup>21</sup> Lubasz, *op. cit.*, 50.

<sup>22</sup> *Ibid.*, 62.

<sup>23</sup> Gertrude Himmelfarb, *The Idea of Poverty: England in the Early Industrial Age* (London: Faber and Faber, 1984), 46-47.

<sup>24</sup> *Ibid.*, 51.

<sup>25</sup> *Ibid.*, 53.

<sup>26</sup> *Ibid.*, 61.

<sup>27</sup> See Lubasz, *op. cit.*, 45 ff.

<sup>28</sup> Bronk, *op. cit.*, 100.

In his *On ethics and economics*, Amartya Sen particularly criticised neoclassical economics for characterising ‘human motivation in such spectacularly narrow terms’, excluding more fundamental questions about how we are to live. He argued against the assumptions that self-interest maximisation best approximated actual human behaviour and that it led to the best economic outcome. Sen recalled that the father of modern economics, Adam Smith, professor of moral philosopher at the University of Glasgow, taught economics as a branch of ethics.<sup>29</sup> The ethics-related approach was derived of course from Aristotle, who considered the making of money as subordinate to the good for the human being and the State.<sup>30</sup> However, it is what Sen calls the ‘engineering approach’ which has dominated modern economics, impoverishing the discipline by its neglect of normative analysis and of ethical considerations in human behaviour.<sup>31</sup> Sen argued that ‘universal selfishness as a requirement of rationality is patently absurd.’<sup>32</sup> He instanced Japan as an example of how duty, loyalty and goodwill have been part of its success.<sup>33</sup>

Sen continued that the neoclassical framework eschewed ethical considerations, looking at economic outcomes in terms of Pareto optimality, regarded as ‘economic efficiency’, though this was quite consistent with extreme inequality.<sup>34</sup> Underlying this view of economics was a utilitarian philosophy which ranked matters according to utility as the only source of value<sup>35</sup> and employed a consequentialist logic, evaluating the goodness of action by outcomes.<sup>36</sup>

Sen's views about Adam Smith have been reinforced by other studies. Jerry Muller in *Adam Smith in his Time and ours: designing the decent Society*, argued that Smith wanted to show not just that self-love in economics could have desirable outcomes, but to show how it could be made compatible with the public good, especially by developing institutions which would discipline the passions and reinforce socially and morally acceptable behaviour.<sup>37</sup> Smith saw liberty not as freedom from all control, but a freedom to control one's passions. ‘That freedom would be learned from and encouraged by such social institutions as the market, the family, religious communities and the law.’<sup>38</sup> Smith was resolutely opposed to the views of Mandeville and Hobbes that self-interest and egoism were the driving force of society, or that self interest would of itself result in a morally spontaneous order; instead of appealing to controversial interpretations of Revelation, he invoked the ‘moral sense’ implanted by God in human beings, and which provided the basis for virtuous action.<sup>39</sup> Smith wanted to increase the welfare of ordinary people. Muller wrote that for Smith the chief economic concern of the legislator ‘would be the purchasing power of wages, since purchasing power is the measure of material well-being’. Smith wanted to keep the price of goods low and

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<sup>29</sup> Amartya Sen, *On Ethics and Economics* (Oxford: Blackwell, 1987/92), 2.

<sup>30</sup> *ibid.*, 3-4.

<sup>31</sup> *ibid.*, 7.

<sup>32</sup> *Ibid.*, 16.

<sup>33</sup> *ibid.*, 17-18.

<sup>34</sup> *ibid.*, 32.

<sup>35</sup> *ibid.*, 47.

<sup>36</sup> *ibid.*, 39.

<sup>37</sup> Jerry Z. Muller, *Adam Smith in his Time and ours: designing the decent Society*. New York: Free Press, 1993, 6-8.

<sup>38</sup> *Ibid.*, 2.

<sup>39</sup> *Ibid.*, 186, 17.

wages high.<sup>40</sup> 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.<sup>41</sup> Smith can hardly be blamed for the views of some of his more avid admirers who mistakenly claim his mantle.

According to Himmelfarb, the real break between ethics and economics came with Malthus and Ricardo, who freed political economy from its ties to moral philosophy, so that it emerged as a “natural economics”, one might say, which professed to be nothing more than the application to the economy of the simple, inviolable laws of nature.’<sup>42</sup>

### **Philosophical assumptions**

The problems arising from the application of economic policies have become more acute in recent times, and in part stem from the philosophical assumptions behind neoliberal economics. Henry Mayer and Dick Spann at the University of Sydney decades ago lamented that so many students were studying economics without a humanities degree behind them, with the result that many in this new generation of economists were being highly trained in econometrics and computer skills, but lacked the historical and social sensibilities in which to locate their economics. Along similar lines, Michael Pusey has argued that some contemporary economists have a very ideological view of economic policies, lacking an adequate ethical framework with which to evaluate their ideas.<sup>43</sup>

It is not just a problem for Australia of course. The increasing popularisation of post-modernism and relativist philosophies presents even more philosophical difficulties, for if the goals of social policy, the social goods, are completely relative, how can societies reach agreement on programs? The problem is especially acute at the international level, because of the vast spectrum of views across cultures and religions. But it is obviously not a new problem. The founders of the United Nations were able to reach agreement on the Universal Declaration on Human Rights which established clear ethical standards for everyone.

Amartya Sen has critiqued relativism from the point of view of a development economist, concerned that the world community focus its thought and energies on lifting living standards throughout the world, and particularly eliminating hunger and the worst forms of poverty. He was particularly anxious to develop a set of objective criteria for development programs to guide debate and overcome views based too exclusively on perceptions of national self-interest, particularly in the richer countries.

To deepen his philosophical analysis, Sen developed a close collaboration with Martha Nussbaum, who has attracted widespread attention for her role in the revival in Aristotelian studies, arguing that it is possible to develop a ‘vague, thick’ notion of the good. ‘Vague’, because she recognises that a more substantially ‘thick’ notion of the good, such as the Catholic Church proposes, is not possible across people of different religion and philosophies; but nevertheless, ‘thicker’ than what a utilitarian, and

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<sup>40</sup> *ibid.*, 75, 60.

<sup>41</sup> *ibid.*, 26.

<sup>42</sup> Himmelfarb, *op. cit.*, 100.

<sup>43</sup> Michael Pusey, *The Experience of Middle Australia: the Dark Side of Economic Reform*, (Cambridge: CUP, 2003), 7 ff.

certainly a relativist, philosophy would hold.<sup>44</sup> Hence, with Sen, she has developed an index with definite objective criteria that form the basis for the Human Development Index in the UN Human Development Reports. This has been a significant achievement, since it provides clear criteria and objectives for development planners.

A growing literature has appeared in recent years in social philosophy, debating the concept of the 'good' and the 'common good', in response to Rawls's procedural notion of justice, and also to overcome the obstruction in ethical thinking arising from extreme relativism.<sup>45</sup> The problem was primarily an ethical one: how to make economics responsive to the wider social and moral framework, to equity and justice.

As Hugh Emy pointed out in his book, *Remaking Australia*, there were ready alternatives to economic rationalism. In fact, the countries doing best did not rely on the assumptions of Anglo-Saxon liberal individualism, but relied on a strong *dirigiste* state to guide the free market. Japan and the Asian tigers took their cultural assumptions from their Confucian tradition, and despite its at times authoritarian tendencies, they were often working better than the Anglo-Saxon economies. Emy might qualify these examples today, but I think the point is valid. China would be a more current example.

Even in Europe, according to Emy, the social market economies were founded not on the tradition of utilitarian individualism stemming from Locke and Ricardo, but 'in part from the tradition of German idealist philosophy, especially Kant, and perhaps even more from Catholic social thought'.<sup>46</sup> Michel Albert, in *Capitalism vs capitalism*, in 1993 drew attention to the fact that the 'ultra-liberal' views of the Chicago school being pushed in the countries of Eastern Europe were undermining notions of social justice and social democracy. He lamented that many people seemed ignorant of the Rhine model and German social democracy, and were unaware how profoundly they had been shaped by Catholic and Protestant social thinking.<sup>47</sup>

## **Pope John Paul II**

To help prepare for the centenary of *Rerum Novarum*, the Vatican invited some leading economists to a consultation in Rome on 5 November 1990. Included were Kenneth J. Arrow, Partha Dasgupta, Jacques H. Dreze, Hendrix S. Houthakker and Amartya Sen. The group was asked to consider ethical issues about the role of the market, especially the trade-off between efficiency and equity, the role of government and the problems of hunger in the world.

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<sup>44</sup> See Martha Nussbaum, 'Human Functioning and Social Justice: In Defense of Aristotelian Essentialism', *Political Theory* (May 1992), 202-46; and 'Aristotelian Social Democracy', in R. Bruce Douglass *et al* (eds), *Liberalism and the Good* (New York: Routledge, 1990), 203-62.

<sup>45</sup> See especially R. Bruce Douglass and David Hollenbach, *Catholicism and Liberation: Contributions to American Public Philosophy* (Cambridge: CUP, 1994); James Donahue and M. Theresa Moser, *Religion, Ethics & the Common Good* (Mystic CT: Twenty-Third Publications, 1996); Brian Stiltner, *Religion and the Common Good: Catholic Contributions to Building Community in a Liberal Society* (Lanham, Maryland: Rowman and Littlefield, 1999); and David Hollenbach, *The Common Good and Christian Ethics* (Cambridge: CUP, 2002).

<sup>46</sup> Hugh Emy, *Remaking Australia: the State, the Market and Australia's Future: a New Agenda for the ALP?* (Leichhardt: Pluto Press, 1993), 210.

<sup>47</sup> Michel Albert, *Capitalism vs Capitalism: how America's obsession with individual achievement and short-term profit has led it to the brink of collapse* (New York: Four Walls Eight Windows, 1993), 204.

Kenneth Arrow was in no doubt that competitive markets may distribute goods very inequitably, and that strong mechanisms of redistribution were needed. Yet in the previous decade, the tendency to reduce taxes on the wealthy in many developed countries ‘has shown no obvious gains in efficiency while poverty has increased.’ The ‘relaxation of moral standards and an over-vivid exaltation of the markets and of the value of greed in the last decade have led to new abuses.’ He argued that the market could not be the final arbiter. ‘Actions of individuals must be governed by moral considerations of consequences and by legal controls’.<sup>48</sup> Dreze saw the role of the Catholic Church, and especially the Vatican, ‘to remind us relentlessly of the special attention paid by Jesus Christ... to the poorest, the least privileged, the most excluded’.<sup>49</sup> He looked to the Church to rouse the moral commitment of people to tackle poverty and hunger.

I think it unlikely that these economists had any direct role in the writing of the Pope’s next social encyclical, but the consultation indicates that the authors of the encyclical were paying close attention to the views of leading economists.

In his *Centesimus Annus*, as the name suggests, appearing on the hundredth anniversary of *Rerum Novarum*, 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’.<sup>50</sup>

One 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 observed that the global market needed to be balanced by ‘a global culture of solidarity that is attentive to the needs of the weakest’.<sup>51</sup>

Pope John Paul considered that we stood at a decisive moment in post-war history, where we can move towards a more just world for everyone, or fall under the rule of a more virulent form of capitalism which blindly entrusts itself to the forces of the unfettered market and which even strong nation states would find difficult to repulse.

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<sup>48</sup> Kenneth Arrow, in *Social and Ethical Aspects of Economics: a Colloquium in the Vatican* (Vatican City: Pontifical Commission Justice and Peace, 1992), 19-21.

<sup>49</sup> Jacques Dreze, in *ibid.*, 44.

<sup>50</sup> Pope John Paul II, ‘What Church Social Teaching is and is not’, *Origins*, 23, 15 (23 September 1993), 257.

<sup>51</sup> ‘John Paul II’s Pointers on how to humanize Globalization’, *Zenit News Agency*, 2 February 2002.

## Some US and Australian experiments

Catholic thinking on economics has generally followed papal thinking, but it was given a great stimulus by the 53,000-word US Pastoral Letter in 1986, *Economic Justice for All*.<sup>52</sup> Originally the US bishops had not intended to analyse the ethical dimensions of international capitalism, but the project was too large for them to handle. Archbishop Weakland of Milwaukee, who shepherded the document to completion, said in 1991 that the first challenge from the economic pastoral was the need for a ‘systematic analysis of capitalism and its ethical basis’. He regretted that many US economists were failing to grapple with the moral issues in economics.<sup>53</sup>

The pastoral letter was the result of a series of extensive public consultations, written submissions and public hearings. A number of drafts were released for further public debate and refinement. Not only did the final document represent a significant engagement with economic issues, but it meant that the bishops and Church activists had to do some sustained work on ethics and economics. This lifted the level of understanding and the standard of debate in the Catholic community, with some lasting benefits, particularly as the substantial US educational system continued to develop this interest.<sup>54</sup> Nevertheless, a major handicap was that ‘generally speaking moral theologians simply lacked sophistication about economics’.<sup>55</sup>

The success of the US process inspired Australia’s Catholic Bishops to adopt a similar methodology. After the restructuring with the Catholic Commission for Justice, Development and Peace in 1987, they announced they would conduct an enquiry into the distribution of wealth in Australia. The process elicited 1300 written submissions, public hearings in the major cities, and resulted in one draft before a final version appeared in late 1992. The title of 212-page statement, *Common Wealth for the Common Good: A Statement on the Distribution of Wealth in Australia*, reflected the communitarian influence traditional in Catholic thought, and as in the United States, stimulated many Church members to devote serious attention to the issues.<sup>56</sup> While it raised the level of debate, it has not resulted in a substantial sustained debate or produced the subsequent writing and analysis one might expect. My own view is that the Catholic community is still contributing well below its potential in these public debates.

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<sup>52</sup> See especially Thomas J. Massaro and Thomas A. Shannon (eds), *American Catholic Social Teaching* (Collegeville MN: Liturgical Press, 2002). Also John D. Piderit SJ, *The Ethical Foundations of Economics* (Washington DC: Georgetown Univ. Press, 1993).

<sup>53</sup> Archbishop R. Weakland, at *Rerum Novarum* conference in Washington, 25 February 1991, *Origins* 20, 40 (14 March 1991), 657.

<sup>54</sup> See especially J. W. Houck and E. F. Williams, *Catholic Social Teaching and the US Economy: Working papers for a Bishops’ Pastoral* (Washington DC: University of America Press, 1984); R. Bruce Douglass (ed), *The Deeper Meaning of Economic Life: Critical Essays in the US Catholic Bishops’ Pastoral Letter on the Economy* (Washington C: Georgetown University Press, 1986); Oliver F. Williams and John W. Houck, *The Common Good and US Capitalism* (Lanham: University of America Press, 1987); and T. M. Gannon, *The Catholic Challenge to the American Economy: Reflections on the US Bishops’ Pastoral Letter on Catholic Social Teaching and the US Economy* (New York: Macmillan, 1987)

<sup>55</sup> Joseph F. Gower, ‘Introduction’, in Joseph F. Gower (ed.), *Religion and Economic Ethics* (Lanham: University Press of America, 1990), x.

<sup>56</sup> Australian Catholic Bishops’ Conference, *Common Wealth for the Common Good: A Statement on the Distribution of Wealth in Australia* (Melbourne: CollinsDove, 1992).



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

1. Human rights are important but not absolute, and must be situated in the context of how they promote and protect human dignity.<sup>57</sup>
2. 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.<sup>58</sup>
3. 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.<sup>59</sup>
4. 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 also calls on the family, school, associations and the state to play their roles in sustaining a moral framework.<sup>60</sup>

While the Church can promote such views, to be fully effective will require the full participation of business and the economics community. And this is one of the most immediate difficulties for the Church. In the past business people and entrepreneurs have not been listening 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, and helps explain why they did not become more involved in the US bishops' economic pastoral.<sup>61</sup> He lamented the lack of a forum in which business people and the Church could work more positively together.

In my view, Catholics in Australia still have much work to do to prepare themselves adequately for a more productive debate with philosophers and economists especially about developing better public policies.

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<sup>57</sup> Oliver F. Williams CSC, 'Catholic social teaching: a communitarian democratic capitalism for the new world order', in Williams and Houck, *op. cit.*, 8.

<sup>58</sup> *ibid.*, 11.

<sup>59</sup> *ibid.*, 14 ff.

<sup>60</sup> *ibid.*, 17 ff.

<sup>61</sup> John B. Carron, 'A new ministry to the business community', in Oliver Williams and John Houck, *Catholic social thought and the new world order*, 86.