

Karl-Heinz Peschke

**SOCIAL ECONOMY IN THE  
LIGHT OF  
CHRISTIAN FAITH**

**Ordo socialis**

**Original:**

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**Social Economy in the Light of Christian Faith**

Editor: ORDO SOCIALIS

Paulinus-Verlag, Trier 1991

ISBN 3-7902-5204-2

**Print and digitalization sponsored and organized by:**

ORDO SOCIALIS

Academic Association for the Promotion of Christian Social Teaching

Wissenschaftliche Vereinigung zur Förderung der Christlichen Gesellschaftslehre e.V.

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Editorial Supervision of the print version: Dr. Johannes Stemmler, Wolfgang Fischer

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Edition ORDO SOCIALIS, Paulinus Druckerei GmbH, Trier 1991

Digitalized by Jochen Michels 2006, Layout of the digitalization by Dr. Clara E. Laeis

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## PREFACE

After the breakdown of socialism in Eastern Europe - as ideology and as economic system - the countries concerned are not only searching for an efficient economic order but under the impact of events are also trying to grasp the meaning and ultimate purpose of all economic activity. The same questions are asked by numerous developing countries which had placed their hope in socialism and have foundered in doing so.

It cannot be said clearly enough: collectivist economic systems must fail because they are based on a false image of man and woman and their relation to society and are enforced against them. That is the structural defect of socialism and communism, which preprograms their failure. The danger however also exists that after the overcoming of communism people fall back on early capitalism. Such a system no more corresponds to the Christian image than the previous one. Both are blind alleys. What is the alternative?

The realization of a humane and efficient economic order is a great challenge and opportunity for Christians all over the world, especially in the countries described above. To these people, who take their mandate of moulding the world in a Christian responsibility seriously, the present publication is addressed.

We are grateful to Professor Karl H. Peschke, SVD, Rome, for having placed this text at the disposal of *Ordo Socialis*. He has made an important contribution to the understanding of economy from the viewpoint of the Catholic Church and her social doctrine, and to its significance as a condition for the engagement of Catholic Christians in economic and social life.

Cornelius G. Fetsch  
Johannes Stemmler

Cologne, June 1991

## INTRODUCTION

„Economic life is one of the chief areas where we live out our faith, love our neighbor, confront temptation, fulfill God’s creative design, and achieve our holiness.“<sup>1</sup> Economic activity is of fundamental importance for the material conditions of human existence. Many men and women are involved in it, in factory, field, office or shop, and all depend on it.<sup>2</sup> As a social reality economic activity is characterized by the cooperation of many participants in a common enterprise, though in a division of work. This requires a common purpose and goal.

The proper function of the economy is one of service; it has no meaning in itself.<sup>3</sup> And it is here that moral evaluations come into play. There is a growing awareness among individuals and groups, and not least among the very exponents of economics, that also this sphere of human activity stands in need of an ethical orientation. In the static economy of a rural or pre-industrial society, the purpose of economic activity was to the greatest extent the satisfaction of men’s basic material needs. This being the case, questions about further goals, criteria and norms appeared superfluous. Yet the dynamic economy of an industrial and post-industrial society definitely extends beyond the satisfaction of these most basic needs of man, and the question of its further goals poses itself with greater force and can no longer be passed over.

Since its beginnings, industrial society has been affected by shortcomings and injustices of various kinds. However it should be noted that not only in the era of industry but „at all times there have been unacceptable flaws and shortcomings in the existing socio-economic order.“<sup>4</sup> For thousands of years a vast percentage of the world’s population were slaves. Farmers were made bondsmen and serfs without freedom to move. The guilds of the middle ages greatly limited the economic creativity of their members and prevented the change to other trades. Yet only in the process of industrialization, organized resistance arose against the injustices of the economic order. Doubtless this was very much favored by the fact that in the factories many workers work together in close contact, which facilitates their effective organization and concerted action. Ever since, a growing sensitivity has developed in all quarters of society to the just or unjust conditions in the world of economy.

It is the task of moral theology and the ethical sciences to defend the ideals of justice. Yet in doing so, scholars must not forget to take into consideration the concrete possibilities of a given place and people. In nations, e. g., which are only starting out on the process of industrialization, one cannot insist on the same remunerations and social benefits as in nations which are already developed and therefore have richer resources. There are inherited traditions, which have to be reckoned with. They may have created less ideal structures, which nevertheless often cannot be altered in sudden shifts without serious disruption to the social fabric and a loss of stability.

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<sup>1</sup> *Economic Justice for All*, Pastoral Letter on Catholic Social Teaching and the U.S. Economy (Washington: NCCB, 1986), Introduction no. 6.

<sup>2</sup> J. Messner defines economy as „the utilization of scarce means in the service of tasks set by the existential ends in accordance with right reason“ (*Social Ethics*. St. Louis & London: Herder Book Co., 1965, 748). The classical definition of economic science is „the study of the allocation of scarce resources to achieve alternative ends“.

<sup>3</sup> „Economy exhausts itself in the procurement and application of ‘means’, i. e. of utilities of service“ (O. von Nell-Breuning: *Gerechtigkeit und Freiheit. Grundzüge katholischer Soziallehre*, Wien: Europaverlag, 1980. 147).

<sup>4</sup> B. Haring, *Free and Faithful in Christ*, vol. 3, 1981, 306. J. Card. Höffner notes that poverty is not only a symptom of the industrial age, but it existed also before, and that even to a high degree. „In some towns, seven to ten percent of the population consisted of beggars. In the year 1476, for example, Cologne had 40,000 inhabitants, of whom 3,000 were known to be beggars“ (*Economic Systems and Economic Ethics. Guidelines in Catholic Social Teaching*. Ordo Socialis No. 1, Köln 1988\ 11).

„Moral theology cannot ignore these conditionings if it wishes to avoid the temptation of a useless ‘voluntarism’, a naive ‘utopianism’, and an ineffective ‘prophetism’.“<sup>5</sup>

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<sup>5</sup> Marciano Vidal, *L'atteggiamento morale*, vol. 3 (Assisi: Cittadella, 1981), 294. Already Max Weber has drawn a distinction between an ethics of the mind and an ethics -of responsibility, a distinction which merits attention. „The ethicist of the mind sees the right order of values, the correct standards, but he cares little about the obstacles that hinder their realization. He thinks that good will prevail by itself and one has only to will in order to generate the good. The ethicist of responsibility for his part feels bound by the same order of values, but is also aware of the limited practical possibilities in the realization of this order and thinks more of the modest good deed than of the unbounded moral Utopia. The ethicist of responsibility knows that the realization of the moral good also requires factual and professional competence“, and this makes him more humble in his pretensions, but also more just and realistic (Peter H. Werhahn, *Die moralische Bewältigung des wirtschaftlichen Fortschritts*. Schriftenreihe des Bundes Katholischer Unternehmer NF9, Köln: Bachem, 1964,9).

# I. NATURE AND END OF SOCIAL ECONOMY

For the moral evaluation of economic activity the goals and ends attributed to it are of decisive importance. They merit the greatest attention in a study which inquires into the ethics of the social economy.

## 1. Insufficient views and theories

Scholars of economics have often, if not most of the time, refused moral considerations in the sphere of their science as an undue intrusion and an usurpation. Economics, it is affirmed, is a science in its own right, just as biology or medicine. Its fundamental task is the study of the laws which permit the optimum combination of means for the maximizing of the output together with the minimum use of scarce resources. In this task economy enjoys its own scientific autonomy and is independent of moral considerations.

Indeed Vatican II asserts that „economic activity is to be carried out according to its own methods and laws“(GS 64).<sup>6</sup> In the study and elaboration of these methods and laws, the science of economics can claim autonomy. The correct application of these laws to the manufacture of a certain product is not a matter of morality, but of technical competence and expert knowledge. If there is a moral dimension to this competence, then it consists in the demand that those in charge of the economy possess the best possible expertise at their disposal.

Yet personal responsibility also enters in the choice of the object to be produced. True, once the choice of the product is made, the laws of economic activity apply independently of any further moral considerations. But a manager is free to choose among the production of good entertainment or pornographic material, the sale of drugs or of medical supplies, the fabrication of fake wine or the genuine article. And this is a free moral choice, for which a person is held responsible.

Most of the time, of course, the product chosen for production will be one which is useful and truly serviceable to the public. After all the majority of the customers is only interested in such products. The entrepreneur ought to produce them at the same time in an economic and in a profitable way: economic, so that as many people as possible can buy them; profitable, so that the enterprise will remain healthy and capable of further growth.

To a certain extent, then, the aim of economic activity is profit. For economic liberalism, the maximizing of profit is even the supreme goal of efficient management. Economics has to teach the methods and laws to attain this goal, and this - according to liberal capitalism - free from the interference of moral values. A value free science of economics is proclaimed. But quite unbeknown to its cool and detached proponents, their value system is that of a utilitarian ethics.

The Church, and many others with her, has rejected the theorem that the fundamental purpose of economic activity should be „profit or domination“(GS 64). Even though an economic enterprise must work profitably in order to survive and to develop, and even though the striving after a reasonable profit remains legitimate, profit can only be a secondary purpose in economic enterprise. Were it to be the primary purpose, this would inevitably bring many abuses and injustices in its train, as proven by ample experience.<sup>7</sup> As a form of utilitarianism, a

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<sup>6</sup> GS = *Gaudium et Spes: Pastoral Constitution on the Church in the Modern World*, no. 64.

<sup>7</sup> A recent example of such an abuse is the scandals of 1988 surrounding the dumping of toxic wastes from Europe in African countries, which are not equipped to cope with them, but accept them pressured by financial needs, at times for the ridiculous price of \$ 2.5 per ton. Some of the wastes are highly poisonous to man and

purely profit oriented economy is refuted by all the arguments that militate against the utilitarian philosophy.

Goods should be produced not only profitably but also economically; it has been stated above, so that they will be accessible to as many people as possible. This has led to the principle of the maximizing of the social produce, a postulate adopted by socialism as much as by liberalism. According to this principle, only that economic involvement is economically meaningful which yields the maximum economic output. But such a goal also is objectionable as an ultimate end of economy. „If the maximizing of the social produce results in endangering higher cultural values, then it is simply no longer meaningful.“<sup>8</sup> Thus, e. g., the gainful employment of mothers of small children certainly increases the quantity of the social produce, but it does so at the expense of important non-material values. Likewise a continuation of production on Sundays will raise the social produce, but again at the expense of the non-material values of Sunday rest and sanctification.

Summing up these deliberations, it is to be maintained that the objective of social economy does not consist in mere profitability nor in the maximizing of the social produce or of the material welfare of as many people as possible. All these are criteria of a utilitarian ethics, which cannot withstand a careful scrutiny in the light of the demands of universal justice and Christian faith.

## 2. Authentic end of social economy

It is the constant teaching of Catholic social doctrine that the economy must be at the service of man, and not vice versa man at the service of the economy. Vatican II declares: The basic purpose of economic production „must be the service of man, and indeed of the whole man, viewed in terms of his material needs and the demands of his intellectual, moral, spiritual, and religious life. And when we say man, we mean every man whatsoever and every group of men, of whatever race and from whatever part of the world“(GS 64).

The American bishops resume this thought with the terse, categorical assertion: „We judge any economic system by what it does for and to people and by how it permits all to participate in it. The economy should serve people, not the other way around.“<sup>9</sup> In a special way they, as well as John Paul II. (cf. SRS 42; CA 57)<sup>10</sup>, insist that attention be given to the poor. Not that the supreme end of the economy would be the service of the poor; this would be too narrow a definition. But the neglect of the poor is quite evidently a sign that an economic system does not resolutely stand at the service of God’s universal plan for mankind, which can be realized fully only if all men are enabled to contribute efficiently to it.

Inasmuch as the economy stands at the service of other, higher goals, it is plain that it „is neither the only goal of human beings and society nor even the most eminent goal. Rather, it must take its proper place in the true sequence of objectives“<sup>11</sup>. A higher rank is held by the

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nature and would require enormous sums to neutralize them.

<sup>8</sup> P. H. Werhahn, *Die moralische Bewältigung des wirtschaftlichen Fortschritts*, l.c. 5.

<sup>9</sup> *Economic Justice for All*, l.c. Introduction no. 13.

<sup>10</sup> The eight social encyclicals are quoted with following abbreviations: RN = „*Rerum Novarum*“(1891) by Leo XIII; QA = „*Quadragesimo Anno*“(1931) by Pius XI; MM = „*Mater et Magistra*“(1961) and PT = „*Pacem in Terris*“(1963) by John XXIII; PP = „*Populorum Progressio*“(1967) by Paul VI; LE = „*Laborem Exercens*“(1981), SRS = „*Sollicitudo Rei Socialis*“(1987) and CA = „*Centesimus Annus*“(1991) by John Paul II. The abbreviation OA refers to the Apostolic Letter „*Octogesima Adveniens*“(1971) by Paul VI. References are not made to pages but to the numbering of the passages.

<sup>11</sup> J. Card. Höffner, *Economic Systems and Economic Ethics*, l.c. 26; see also John XXIII, „*Mater et Magistra*“, no. 246.



dignity of man and his freedom, cultural values, religion and morality, and God's universal plan for the world.

Nevertheless it is also true that the economic needs of man, though the most humble, are at the same time the most indispensable for his earthly existence. In this consists the nobility of the economy. Without the satisfaction of man's material needs, his access to the higher values remains greatly limited. „When the economic goods do not yet exist in sufficient quantity, their procurement confers on the economic activity a priority of urgency in comparison to the other needs.“<sup>12</sup> The latter can be attended to with greater freedom only after a sufficient measure of material well-being has been attained. Material progress is therefore a legitimate and desirable goal.

#### **a) Proximate aims of the economy.**

The most direct purpose of the economy is the satisfaction of man's needs in the material realm: provision of food, clothing, housing, transportation, tools, machines, etc., and this on a stable and lasting basis. Yet also goods of non-material nature are provided by the economy, e. g. information by the mass media or legal advice by law offices. In all instances, however, the economy is concerned with the satisfaction of man's temporal needs. This objective has to be pursued in such way that all people will be enabled to live lives fit for human beings.

This raises the question as to what constitutes a life fit for human beings and which are the needs that merit satisfaction. An existence in a state of drug addiction is not a life worthy of a human being, and the desire for hard drugs is not a need that merits satisfaction. The answer to this question at the same time further defines the precise nature of the true, authentic ends of the economy.

Vatican II has already been quoted with its demand that the purpose of economic production be the service of man's „material needs and the demands of his intellectual, moral, spiritual, and religious life“(GS 64). An economy placed at the service of the genuine needs of men can be summed up as an economy placed at the service of the common good. All economic ventures must, in one way or another, contribute to the realization of this purpose as their superior goal.

The common good has been described as the sum of those conditions of social living whereby men are enabled more readily and more fully to achieve their perfection and appointed ends (cf. GS 74).<sup>13</sup> „In ecclesiastical pronouncements ‘common good’ as terminus technicus is generally understood in the sense of service value.“<sup>14</sup> As such it comprises such aids as schools, hospitals, social services, energy supply, road networks, etc. Yet progress must not be viewed too much in terms of institutions, organizations and techniques. The common good ultimately consists in goods and values actualized in the members of society. Genuine progress above all consists in greater material security, a sound state of physical and mental health in society as a whole, a sufficient degree of education and schooling of its members, opportunities of work for all, favorable conditions for religious and cultural life, the good of social justice, real freedom and equality among men. (The establishment and securing of peace and order is another sphere of the common good, but rather a matter for the law of the

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<sup>12</sup> Jean-Marie Aubert, *Morale sociale* (Assisi: Cittadella, 1975<sup>2</sup>), 35.

<sup>13</sup> According to the *Constitution on the Church in the Modern World*, „the common good embraces the sum of those conditions of social life by which individuals, families, and groups can achieve their own fulfillment in a relatively thorough and ready way“(GS 74). An almost identical definition is found in the *Declaration on Religious Freedom*, no. 6. The definition in the main text above adds to the achievement of man's fulfillment that of his appointed ends, inasmuch as man has also the task to place himself at the service of other men and of God's plan with the world.

<sup>14</sup> See O. von Nell-Breuning, *l.c.* 35f.

state and its organs, and not directly economic activity.) Also these goods and values actualized in the members of society pertain to the conditions of social living, referred to in the above definition, which enable men more fully to achieve their perfection and appointed ends.

The common good, it should be noted, must be viewed not only in terms of the short-term benefits for the present generation, but also in the light of the future of society. Therefore the economy must also take into account the impact of its activity on the environment or on the health of the family and such needs as research investments to retain the competitive viability of the economy. Needs which stand in conflict with the common good cannot be served by the economy, and much less may they be artificially created for the purpose of profit.

The helps of the common good are meant to assist men in the realization of their tasks, which they themselves cannot achieve alone, or at least not achieve sufficiently well. Its function is therefore subsidiary and complementary. From this it follows that the common good is not an end in itself. It stands in the service of still higher aims. These superior aims are for J. Messner man's existential ends. „The common good consists in help for all the members of society in fulfilling the tasks allotted to them by the existential ends.“<sup>15</sup> These ends are consequently also the ulterior purpose of economic activity.<sup>16</sup> The existential ends are, according to Messner, self-preservation, including bodily integrity and social respect; self-perfection, including the enlargement of knowledge and the improvement of the conditions of life; marriage and the rearing of children; concern and care for the welfare of one's fellowmen; social fellowship for the promotion of common utility; commitment to goodness and value in its absolute, transcendent form, especially communion with God through worship of him.<sup>17</sup> Such ends are implied when the demand is made that economic production favor „the liberation of man, his instruction, his cultural development and the possibility to dedicate himself to cultural activities.“<sup>18</sup>

The existential ends serve as criteria for the tasks to be accomplished by the common good. Yet inasmuch as these ends are several, situations can occur where two or more of them might come into conflict, and only one of them can be satisfied. For example, dialysis might be the only means to maintain the life of a person with a renal disease, but the sick person's family might be too poor and the finances of a developing nation urgently needed for more pressing tasks of common utility. Even in developed nations the same situation results in cases where a heart transplant is needed. Or the good of marriage might be an obstacle to the care for the spiritual and material welfare of one's fellowmen. How are such conflicts to be solved? By which criterion is the order of priority established among the various ends? The solution is provided by the criterion of the ultimate end of man.

## **b) The ultimate end of the economy**

This cannot be different from the ultimate end of human life in general. This end procures the comprehensive framework which makes moral judgments possible and provides the basis for their validity. Its correct comprehension is therefore of crucial importance. „The great task that has to be faced today for the renewal of society,“ writes John Paul II, „is that of recapturing the ultimate meaning of life and its fundamental values. Only an awareness of the primacy of these values enables man to use the immense possibilities given him by science in such a way as to bring about the true advancement of the human person.“<sup>19</sup> In Christian ethics this

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<sup>15</sup> J. Messner, *Social Ethics*, l.c. 129.

<sup>16</sup> See footnote 2

<sup>17</sup> J. Messner, *Social Ethics*, l.c. 19. The scope of the last end has been somewhat broadened by the author of this text.

<sup>18</sup> Luigi Lorenzetti, *Trattato dietica teologica*, Vol. 3 (Bologna: EDB, 1981), 78

<sup>19</sup> Apostolic Exhortation „*Familiaris Consortio*“ (1981), no. 8.

end is the service of God's glory, the promotion of his kingdom of justice, love and peace, and the unfolding of his creative plan for the world. Even if for non-Christians the realities of God's glory and kingdom might only be partly of help or not at all, these persons will be able to consent to the concretization of these concepts in the goal of the further unfolding of the work of creation. Christians of course will be conscious that, on the road to this goal, they still need the guidance of God's Holy Spirit, who alone knows the master plan of this work.

In relation to this world, God's glory is achieved by the steady realization of his plan in history. Men „can justly consider that by their labor they are unfolding the Creator's work, consulting the advantages of their brother men, and contributing by their personal industry to the realization in history of the divine plan“(GS 34; cf. also 57 and 67). To accomplish this goal, man is to harness the potentialities of the earth, by his work to develop nature as well as himself, and to promote co-operation and a process of wholesome socialization in the civic, economic and political realms.<sup>20</sup> That life is worthy of a human being which enables a person to contribute to the realization of these goals to the best of his abilities. Economic activity may never lose them from sight.

It is true that people will at times be divided in their opinions as to what best concretely serves the goals singled out here, be it the common good, the existential ends, or God's kingdom and his creative plan. „The movement from principle to policy is complex and difficult.“ Moral values and goals „must interact with empirical data, with historical, social, and political realities, and with competing demands on limited resources.“<sup>21</sup> The soundness of the concrete judgments in economic matters therefore depends not only on the moral force of the basic principles, but also on the accuracy of a person's information. And in the evaluation of the data, different interpretations at times are possible.

Nevertheless the moral principles remain essential to economic decisions and policies. The goals outlined by moral theology with their further, detailed specifications give a definite orientation, clear enough for a basic discernment and a reasoned judgment.

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<sup>20</sup> For a detailed description of the ultimate end and its specific implications see Karl H. Peschke: *Christian Ethics*, vol. I (Alcester and Dublin: C. Goodliffe Neale, 1993'), 87-99.

<sup>21</sup> *Economic Justice for All*, 1.c., no. 134.

## II. ECONOMIC THEORIES AND SYSTEMS IN THE LIGHT OF CHRISTIAN FAITH

The question about the right economic system is a much discussed question. Today it is an especially relevant and burning issue in the developing nations of the Third World. The scene continues to be much influenced by the competitive concepts of capitalism and socialism or - a terminology sometimes preferred by the experts - market economy versus centrally planned economy.

The two contrasting systems hardly exist in pure, ideal forms anywhere. In concrete life liberal capitalism very soon underwent modifications and incorporated the checks of social and political institutions, and marxist socialism has suffered more and more inroads from free market policies. This already should be an indication that both systems, in their abstract, theoretical formulations, are subject to limitations and shortcomings.

Between the two extremes a variety of middle range systems have been projected. In this context it will suffice to give more explicit attention to two more profiled, mediating systems: the social market economy and democratic socialism.

The U.S. Bishops affirm that „the Church is not bound to any particular economic, political, or social system; it has lived with many forms of economic and social organization and will continue to do so.“<sup>22</sup> Various types of political economy remain acceptable to the Church. It is not her task to prescribe concretely which one a nation should adopt. However the fact that the Church has lived with many forms of economic systems does not at the same time demonstrate that she approves of all of them in an equal manner. Since she has no political authority over the choice of these systems, she is often forced to coexist with forms of economic and social organization which she, in her own social teaching, clearly disapproves. In fact in the judgment of the Catholic Church not all systems are morally equal, and the two opposing extremes are declined by her (QA 10; PP 26; 33; SRS21).<sup>23</sup>

In the search for a workable economic system, theory must be combined with the expertise gained by practice. What in theory seems ideal at times, may not work out so in practice. When getting involved in socio-economic matters, religious leaders and theologians must not expose themselves to the criticism that they are lacking in the knowledge of even elementary concepts of economic thought and facts. The proper competence of the Church does not lie in the area of the practical feasibility of certain economic strategies and policies, but in the area of their compatibility with the moral values and ends of mankind. To this task the Church and her ministers must dedicate themselves first of all.

### 1. Liberal capitalism

Capitalism appears to many as the economic system of the old establishment and of an exploitative bourgeoisie, devised to protect a status quo which favors the upper classes. Against this background, it is worth noting that Adam Smith's book on „The Wealth of Nations“ (1776)<sup>24</sup>, which is one of the early classics of capitalist theory, came into being as a

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<sup>22</sup> Economic Justice for All, I.c, no. 130.

<sup>23</sup> Although the Church does not present concrete economic models, which are always also dependent on historical conditions, she „offers her social teaching as an *indispensable and ideal orientation*, a teaching which .... recognizes the positive value of the market and of enterprise, but which at the same time points out that these need to be oriented towards the common good“(CA 43).

<sup>24</sup> *An Inquiry Into the Nature and Causes of the Wealth of Nations* (Great Books of the Western World, Vol. 39). London: Encyclopedia Britannica, 1952.

contentious writing against an ingrained, oppressive order. Its opponent was the mercantile system, the economic theory of absolutism.

The basic idea underlying mercantilism is the assumption that the wealth available to the nations of the world is of a static, limited nature, whereby wealth is understood as consisting in money and precious metals. Accordingly the more one nation succeeds in accumulating wealth for itself, the less there will be available for the others. In this hypothesis, which has been labeled the „zero-sum-theory“, a nation could only gain in wealth by making the others lose as much. Yet since wealth means greater power, it was in the foremost interest of the absolutist state to gather up as much of it as possible. The goal of the foreign trade politics therefore was to boost exports, which earn money, and to limit imports, which spend it, as much as possible. In order to assure the attainment of this end, the state intervened in trade with a multiplicity of controls and restrictions.

Against this stifling regimentation by the state, Adam Smith and his followers demanded full freedom of trade. The aim of economic activity should not be the interests of the state, but the needs of the citizens. The citizens themselves know best what is good and useful for them. For this they do not need the tutelage of the sovereign. And if everybody seeks what serves him best, this will in the end turn out to the profit of all. For if a carpenter wants to have orders and sales, he must exert himself to produce good furniture at a reasonable price. Although in this he is motivated by the desire of profit and by his own advantage, he must attend to the wishes of his clients in order to succeed.<sup>25</sup> The key to economic progress and prosperity accordingly is freedom of economic enterprise combined with sound self-interest. Free enterprise, free competition, free trade are the cue words of liberal capitalism. The law of supply and demand ought to regulate the entire economic process.

The „zero-sum-theory“ of mercantilism moreover is rejected as a primitive fallacy. Money by itself does not satisfy any want. Its worth consists in its being a means for obtaining the goods needed by men for their lives: besides food, also clothing, land, houses, furniture, cars, etc; and these goods as well constitute wealth. However if a person does not spend his money for these goods but instead saves a portion of it and uses it for building a workshop or factory, his money will be able to create new wealth. The money thus invested is called capital. „The identification of capital as a cause of production marks the intellectual originality of capitalism ... Capital is distinguished from wealth as that part of wealth which is withdrawn from consumption and invested in production.“<sup>26</sup> In this way abstinence gives rise to capital, and capital gives rise to new wealth. „New wealth can be created from existing wealth, provided the latter is saved and invested, not merely wasted.“<sup>27</sup> Accordingly it is not correct that an individual or a nation can get rich only at the expense of others. It can create its own wealth by savings which are invested as capital in productive undertakings.

In fact the promise held out by capitalism of an ever increasing wealth for the nations did not prove an empty one. The countries associated most with the system of capitalism are also those most highly developed. They have experienced a tremendous explosion of creativity during the last two hundred years. „Virtually all the innovations and inventions of this sudden

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<sup>25</sup> Everybody is in constant need of the help and services of others. Such services can be obtained best, not by appealing to the benevolence of one's fellowmen, but by offering them a good remuneration, i. e. by appealing to their self-interest. „It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow-citizens“(A. Smith: *l. c.*, book I, ch. II, p. 7).

<sup>26</sup> M. Novak: *Freedom with Justice. Catholic Social Thought and Liberal Institutions*. San Francisco: Harper & Row, 1984), 90; see the entire, very instructive section pp. 87-96.

<sup>27</sup> *ib.*

historic outburst of creativity spring from democratic capitalist lands.<sup>28</sup> Even though the living standard of the masses initially remained low, it rose steadily almost all the time.<sup>29</sup> The extensive welfare policy of the industrialized countries in the next period were rendered possible by the economic progress achieved on the basis of a free market economy.

All this granted, a closer look at the capitalist system on the one hand and the industrialized „capitalist“ societies on the other reveals that in none of these societies are capitalist principles adhered to in anything like their pure form. There is a great deal of social legislation in these societies which in no way results from the capitalist system, but from quite diverse and more altruistic sources. The principles of the capitalist system are in themselves individualistic and impersonal.<sup>30</sup> Where there are no checks by social legislation or personal ethical standards, they indeed pave the way to self-centered business practices, indifference towards the person and exploitation. This is why the criticisms against this system were never silenced. Where social legislation for protecting the weak is only incipient and poorly developed, there the weak are exposed to overreaching and exploitation.

„This does not deny the fact that self-interest and competition are dynamic factors.“<sup>31</sup> It is the great merit of liberal capitalism to have recognized the fundamental importance of freedom of enterprise and trade for a creative development of the economy. This achievement must not become lost. It is a further merit that capitalism encourages „the habit to abstaining from consumption and miserly hoarding in order to invest in creative ventures.“<sup>32</sup>

But it is the perilous error of liberalism to have the demand of freedom extended too far and to have believed that the law of supply and demand alone could assure a healthy development of the economy. In logical consistency this error then leads to the rejection of moral norms, i. e. claims of a higher purpose of economy than merely profit, as an undue interference with economic freedom.<sup>33</sup> In the end, societies see themselves compelled to promulgate ever more protective social laws as checks to and limitations upon a total economic freedom. This legislation is after all nothing else but the result of the claims of higher ends upon the economic activity. In the last analysis, they are expressions of demands of the moral law, at least to a very large degree. But inasmuch as this legislation remains external to the capitalist spirit, its individualistic and impersonal mentality tends to dominate the space of freedom not covered by the law.

On the basis of the capitalist principles, work becomes a mere commodity, hired and paid

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<sup>28</sup> ft. 161.

<sup>29</sup> The creativity of the free, democratic economy has done much to uplift the living conditions of mankind. It is deplored that, as some experts estimate, „800 million persons on this planet are living in abject hunger. Yet just 200 years ago, the entire population of the earth - mostly living lives which might be aptly described as ‘solitary, poor, nasty, brutish, and short’ - also numbered 800 million. It is the tremendous creativity of modern work which has allowed the population of the earth to rise to 4.6 billion persons, some 3.6 billion of whom have escaped the most abject poverty“(M. Novak, l.c. 164)

<sup>30</sup> The classical theory is characterized by an abstract, technical language, which speaks of work, land and capital, supply and demand, purchasing power, consumption and the market. „The acting person with his expectations and claims upon the economy does not enter the picture. This anonymous economic thinking continues in the neo-classical conception of economy“(Edgar Nawroth, „Wirtschaftliche Sachgesetzlichkeit und Wirtschaftsethik. Grundprinzipien einer sozialen Marktwirtschaft“, in *Wirtschaftliche Sachgesetzlichkeit und Wirtschaftsethik*. Gespräch katholischer Unternehmer am 7. März 1987, ed. by Bistum Essen, Dezernat für pastorale Dienste, Essen, 1987, 14). The purpose of the economy is equated with maximum productivity (ib. 14f).

<sup>31</sup> J. Card. Höffner, *Economic Systems and Economic Ethics*, l.c. 10.

<sup>32</sup> M. Novak, *Freedom with Justice*, l.c. 10.

<sup>33</sup> „In the tradition of Adam Smith, market and ethics are considered incompatible because spontaneous moral acts conflict with the rules of the economy and would simply expel the moralizing entrepreneur from the marketplace“(Joseph Card. Ratzinger, „On the Dialogue between the Church and the Economy“, in *Church and Economy. Common Responsibility for the Future of the World Economy*, ed. by J. Thesing. Mainz: v. Hase & Koehler, 1987, 22).

according to considerations of competition and profit, even if at present within the limits of social legislation by the state. The impersonal character of the employment conditions thwarts ties of loyalty and breeds class struggle instead.

Capitalism furthermore leads to a concentration of wealth in the hands of relatively few citizens, perhaps 5% of the population. And with greater wealth goes greater power. This is not necessarily an evil. Power is also concentrated in the hands of others. But it becomes a grievance if the use of the power is not subject to the demands of the common good and the moral order and not checked by just laws and their impartial application (e. g. in the courts).<sup>34</sup> Catholic social doctrine at any rate prefers and urges policies which check this trend and favor a wider distribution of wealth.

In the judgment of the Church, liberal capitalism does not present the right answer to the economic and social needs of society. The Church does not seek help from liberalism, which has „already shown its utter incompetence to find a right solution of the social question“ (QA 10). This judgment of Pius XI is the judgment of the Church also today (cf. MM 58; PP 26; 33; OA 26; 35). John Paul II asserts that whenever the priority of the person and of labor over capital is reversed, then the system, under whatever name it may present itself, must be called capitalist and objected to (LE 13). This verdict holds true for liberal capitalism, although the formulation chosen by the Pope clearly gives it a wider scope, covering also state capitalism, which has to be discussed in the following.

## 2. Marxist socialism

In the middle of the 19th century, socialism arose as a reaction to the misery and degradation suffered by many workers and their families in the early stages of industrialization and as a protest against the capitalist system, which was regarded as the cause of this condition. The protest found expression above all in the writings of Karl Marx,<sup>35</sup> who felt provoked by the miserable lot of the workers in the factories and wanted to come to their defense. His ideas came to dominate the theory and development of socialism.

Marx condemns capitalism because it defrauds the laborer of a just remuneration for his work. The worker, being penniless, is forced to sell his work to the capitalist after the manner of merchandise. The sale and purchase takes place according to the law of supply and demand, the capitalist always trying to purchase the work at the lowest possible price. The consequence is that the worker is for ever reduced to a state of penury and misery.

The cure of the evil for marxist socialism consists in the abolition of private property, most especially of the private ownership of the means of production, but also of landed property, marketing facilities, means of transportation and most other assets.<sup>36</sup> They are transferred into

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<sup>34</sup> See the very good annotations to the limits of capitalism by H. Sautter, *Armut und Reichtum auf Weltebene und die Grenzen politischer Lösungsversuche* (Wuppertal: Brockhaus, 1983), 63-73.

<sup>35</sup> Best known among his books are the *Communist Manifesto* (1848) and *The Capital* (1867-94).

<sup>36</sup> According to Marx, the change from private to common ownership would occur with a deterministic necessity. In the course of the competition between the various owners, the weaker ones will always be eliminated. In the end only a few capitalists will remain, who will control everything, but - because of the poverty of the masses - will not even be able to sell their products. At this point the inevitable collapse of the capitalist system will occur. In a final revolt, the masses of the proletariat will convert the property of the few remaining capitalists into common ownership and establish a more just order, in which everybody will receive according to his abilities and his needs.

These and other ideas of Marx however are to a great extent theoretical speculations, and things never actually happened this way. „According to Marxist analysis, the dialectical leap from capitalism to Marxist socialism was to take place first of all in the highly developed industrial states of England, USA and Germany. But in fact, Marxism seized power in the agrarian countries of Russia, Poland, Romania, Bulgaria and China etc: moreover, it did so by force of arms and not by dialectics“ (J. Card. Höffner, *Economic Systems and Economic Ethics*, l.c. 34).

the hands of the state, which administers them, directs the economy and is the only employer. A central administration draws up the economic plan, which determines the goals to be achieved, the priorities to be set, the technical procedures to be followed and the distribution of the national product to be made. After some phases of transition, marked by the revolutionary dictatorship of the proletariat, this will create the classless, socialist society with equal prosperity for all.

A natural outflow of this theory is the doctrine of class struggle. The two classes of the capitalist owners and the propertyless workers are irreconcilably opposed. The former of course are not willing to renounce their privileges voluntarily. However by an intrinsic necessity the struggle in the end leads to the elimination of the few capitalists and the nationalization of all property.

The philosophical frame of the theory for Marx is an atheistic determinism. Atheistic in fact were also all the communist states which had adopted marxist socialism, and so was the core of the communist parties. Scholars are not of one mind as to whether atheism is intrinsic to the system. Surely marxist socialism places immense powers in the hands of the central authority. In order to translate its political and economic goals into reality with full efficiency, this power does not want to be challenged. Communist states tend most strongly to be totalitarian. To the extent that they are such, their pretensions are incompatible with the independent claims of a faith in God and of any religion. Either, therefore, the state authority is also the highest religious authority (as in the Inca empire) or the existence of God is denied. At least such a denial appears very expedient to the realization of the goals of the marxist state.

The system of marxist socialism in the communist states has received a serious, if not a lethal blow under the „perestroika“ of Russian Premier Gorbachev and through the rejection of communist rule in all eastern European countries at the end of 1989. Marxism has been repudiated as much for its evident economic failure as for its oppressive, totalitarian rule. This however does not mean the liquidation of all forms of socialism; in fact the former communist parties continue to exist with reformed, less radical programmes as socialist groupings.

Socialist theories have exerted and, at least in their milder forms, continue to exert a great fascination, especially among poorer groups of the population and of less developed countries as well as among intellectuals. „Social reformers usually display a preference for centrally planned economies when they are designing ideal economic systems.“<sup>37</sup> Doubtless the socialist concern for an exploited working class and for greater social justice is an ideal which evokes sympathy in generous souls, while in comparison the principles of capitalism appear individualistic and selfish. The concern for the disadvantaged and less privileged is a merit of socialism which must be an integral part of any blueprint for a just economic system. Furthermore a centrally directed economy holds out the promise of a greater unity of action with the possibility of a clear, firm direction towards the goals which have been identified as important.

On the other hand, „the compactness of the socialist system contrasts in a strange way with its socio-economic inefficiency. Everywhere in the world the dependent workers and employees fare better in capitalist than in socialist systems, not only economically, but also in regard to the dismantling of social barriers, self- and co-determination, granting of individual and social liberty.“<sup>38</sup> When all is said and done, the practical result of the marxist ideology is the concentration of power in the hands of an all-powerful state and masses curtailed or even deprived not only of the right to property, but of other basic rights as well. The affinity to structural

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<sup>37</sup> J. Card. Höffner, *Economic Systems and Economic Ethics*, l.c. 35.

<sup>38</sup> Wilhelm F. Kasch, „Gibt es eine christliche Option für ein Wirtschaftssystem?“, in *Kann der Christ Marxist sein? Muss er Kapitalist sein?*, ed. by A. F. Utz (Bonn: Scientia Humana Institut, 1982), 86.



coercion in marxist socialism is unmistakable.

The most serious defect of marxist socialism, inherent to the system and therefore inevitable, „is the extensive renunciation of initiative, which is replaced by complete and, if need be, enforced submission to the orders from above; in that regard the terminology ‘command or coercive economy’ is at least as much to the point as the terminology ‘centrally administered economy’, common in scientific parlance.“<sup>39</sup> The liberty for creative economic ventures, which is the great achievement of capitalism over against the stifling state-controlled economy of absolutism, is lost again. The price paid for it is high: passivity of the employees and lack of interest in their work, wasteful use of resources, neglect of machinery and tools, scanty creativity, frequent faults in the planning with shortages or over-supplies of goods, and a generally sluggish development of the economy.<sup>40</sup>

It has been argued that „man is just too bad for socialism“<sup>41</sup>. Socialism presupposes a strongly altruistic person, motivated by the ideals of solidarity. But in reality people are wounded by sin, seeking their own interest and advantage first of all, precisely of that character which capitalism takes as its point of departure. Yet at a closer look, the culprit is not only, and perhaps not even primarily, the sinful nature of man. The culprit is as much or even more so the socialist system. The economic plans, thought out and dictated to everybody from above while neglecting the principle of subsidiarity, are of necessity too imprecise to correspond to all the personal and social needs of the subjects. Therefore citizens do not recognize in them either their own best interest or that of their fellowmen. Consequently they are slow to or refuse to cooperate.

Another most perilous deficiency of marxist socialism, which results from the extensive abolition of private property and the transfer of all significant property into public ownership, is the almost total concentration of power in the hands of the state with all the grave threats to the civic liberties which this entails. The state becomes the prime or almost sole employer, able to demote or dismiss anybody who mounts an opposition or otherwise falls into disgrace. Therewith one of the most important goals, which socialism has written on its banners, is nipped in the bud: an end to the exploitation of man by man and not least of the workers. According to John Paul II, the decisive factor which gave rise to the changes in the communist bloc was precisely the violation of the rights of the workers. „It was the throngs of working people which forswore the ideology which presumed to speak in their name“(CA 23).

In like manner the great promise of an equal distribution of wealth remains unfulfilled. It is undercut by the privileges which the ruling elite can and does assume for itself and for those it favors. It is still more undercut by the system of incentives, which must be offered to stimulate efficient work. Socialist countries contend that, although their general living standard be not so very high, there are at least no wretchedly poor in their confines. Everybody has the minimum subsistence for his life. Perhaps this is true to a certain extent.<sup>42</sup> Nevertheless there are reports to the contrary, which even challenge this claim.<sup>43</sup> In recent times at any rate, it has become clear more than ever how much socialist societies suffer from all kinds of severe

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<sup>39</sup> O. von Nell-Breuning, *l.c.* 170.

<sup>40</sup> Even in countries with a system of private ownership, checks by the national auditing offices again and again point to wasteful use of resources in the non-private, *public* sectors.

<sup>41</sup> W. Lachmann, *Leben wir auf Kosten der Dritten Welt?* (Wuppertal: Brockhaus, 1986), 102.

<sup>42</sup> But it cannot be ignored that in communist societies irksome minorities and active members of Churches and religions often were and still are exposed to repression, persecution and fresh misery; in short, new outcasts are created.

<sup>43</sup> „Then Vice-Premier Li Xiannian, China’s leading economist, admitted that ... 100 million Chinese do not have enough to eat ... Average per capita urban housing space in 1980 was less than it was in 1949“(Reader’s Digest, Nov. 1981, 45f). Under communist rule even an agrarian country such as Poland needed food aid.

shortages, including shortages of foodstuff. The chances for lifting a nation as a whole more rapidly out of a backward stage of development are definitely not the best in a system of marxist socialism.<sup>44</sup>

The theory of class struggle, furthermore, does not do justice to reality. It is presented by marxist analysis as inevitable and creative. On its basis violence is easily being justified as a necessary step towards a better, more just world. It presupposes that the owners of the capital are all unjust and evil, while the workers are all righteous and good. But the obvious truth is that among the employers there are not only bad but also good ones, just as among the workers there are not only good but also bad ones. The grave error of the theory of class struggle consists in the identification of all evil of mankind with private property and its owners, and of all good with its badly defined opposite. Violent class struggle therefore does not do justice but works injustice; it is not creative but destructive; it does not build up but tears down. Its outcome is a new oppression, more abusive than the former one: the stranglehold of state capitalism and the dictatorship of the socialist party leaders.

Finally for socialism as much as for capitalism the ultimate end of economic activity is material well-being and comfort. Both are materialistic in outlook. Both are utilitarian, even though the utilitarianism of capitalism is more individualistic, while that of socialism is more party oriented and national. Neither form of utilitarianism is able to satisfy the search for the true meaning of life (cf. CA 24); neither form is able to meet the standards of true morality.

The Magisterium of the Church has repeatedly and unequivocally rejected marxist socialism, and this for the following reasons: first, its entirely materialistic outlook and the consequent atheism (QA 112; 118f; MM 34; OA 26); second, its rejection of private property, which infringes upon basic human rights and runs contrary to the common good (RN 7f; 22f; QA 112; CA 24); third, the false illusion of equality and the suppression of the right to economic initiative in the name of this illusion (RN 26; 55; SRS 15); fourth, its dialectic of violence and class struggle (QA 112; OA 26; 34; CA 14); and fifth, the dangerous concept of a state with unlimited powers (RN 21; OA 34; CA 13). The Christian „cannot adhere to the marxist ideology, to its atheistic materialism, to its dialectic of violence and to the way it absorbs individual freedom in the collectivity.“ It would be illusory and dangerous „to accept the elements of marxist analysis ... while failing to note the kind of totalitarian and violent society to which this process leads“(OA 26; 34).

### **3. Social market economy**

The social market economy combines the creative forces of a free market with the protective controls by social legislation. It bases itself on the two pillars of a free market and of state controls, without granting a dominant role to either one. It relies neither solely upon individuals nor solely upon the state. Rather it subordinates both to the service of the comprehensive welfare of man, society and the community of nations, as outlined above in the section on the authentic end of the social economy. The concept of social market economy originated in post-war Germany,<sup>45</sup> but characterizes the economic system of many nations of the First

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<sup>44</sup> It cannot be overlooked that the living standard is lowest in the developing nations with a centrally planned economy, controlled by the state.

<sup>45</sup> The concept was coined by Müller-Armack, one of the fathers of the social market economy in West Germany. The formula of success of the market economy has been summarized in the following five points: (1) Guarantee of fair competition through the legislator. (2) Distribution instead of concentration of power. (3) Social partnership instead of class struggle. (4) Liberty and justice through the principle of subsidiarity as the ordering principle of a society operating in solidarity. (5) Wide distribution of property through formation of assets in the hands of employees.

World. The term democratic capitalism, used by North-American authors,<sup>46</sup> essentially designates the same reality, yet places in terminology as well as in content a stronger accent on the capitalist element in economy.

Under a market-economy, trade and industry draw up their economic plans on an independent basis. Landed property, housing and means of production belong to private owners, who can freely dispose of them. Everyone is allowed to carry on a trade and to set up new firms. Great latitude is accorded to individual freedom and personal creativity. Supply and demand are ruled by free competition. The assertion of the capitalist theory that freedom of enterprise, of competition and trade have a positive function in the economy is recognized as valid. In normal circumstances competition in the market place is able to stimulate economic progress and to protect customers against excessive prices and exploitation. Those who compete against each other have less „opportunity to sell their goods at usurious prices than the merchants who are in sole possession of such goods. If they did dare to demand excessive prices, people would flock to others who sell at lower prices. In other words, the merchants cannot fix their prices at as high a level as they desire.“<sup>47</sup>

The question is raised whether the social market economy is not after all only a modified, domesticated form of capitalism, as in some way implied by the term democratic capitalism. Yet an essential difference from laissez-faire capitalism consists in this that the social market economy unequivocally subordinates capital and property to higher ends beyond mere profit making, i. e. to the service of the comprehensive (material, cultural, political and religious) welfare of all and - at least in the context of religious and especially Christian faith - to the glory of God and the unfolding of his creation. Judged from this point of view, even high income and great capital accumulation are not objectionable, as long as they are placed at the service of these goals. „Thus the utilization for investment can justify the pay even of very high proceeds from property.“<sup>48</sup> Capital accumulation ultimately receives its justification from the ends in whose service it is placed.

In view of the claims emanating from higher ends, the social market economy therefore does not also advocate, as liberal capitalism does, a complete freedom of competition and economic enterprise. Unfair competition has to be excluded by governmental regulations. They must provide the common rules, without which a fair game cannot be played. The law of supply and demand alone is not sufficient to secure a just economic order. Wages and working conditions must be negotiated autonomously between labor unions and employers' associations, and their minimum standards must be guaranteed by social legislation. The domination of markets by monopolies, partial monopolies, oligopolies, cartels and the like must be prevented. Unavoidable monopolies must be placed under public control. Moreover only part of the goods and services in demand can be made available via the market. The help of the community is needed to meet a number of collective needs, which „range from supplies for the disadvantaged and passive members of the market to the environmental compatibility of production and a certain proportion of development aid in line with the common weal of the world.“<sup>49</sup> The adjective „social“ is not merely a decoration in the name of this system; it expresses an essential constituent of it and a fundamental obligation.

The insistence on the need for social provisions for the disadvantaged, e. g. those who are unemployed, alone with dependent children, unable to work because handicapped, sick or old, takes up and retains the justified concerns of marxist socialism, to secure equitable living

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<sup>46</sup> Cf. M. Novak, *The Spirit of Democratic Capitalism* (New York: Simon & Schuster, 1982).

<sup>47</sup> J. Card. Höffner, *Economic Systems and Economic Ethics*, l.c. 8f.

<sup>48</sup> O. von Nell-Breuning, l.c. 211

<sup>49</sup> L. Roos, ed., *Church and Economy in Dialogue. A Symposium in Rome. Ordo Socialis No. 2*, with contributions by Agostino Card. Casaroli, Joseph Card. Höffner, Joseph Card. Ratzinger, Pope John Paul II (Köln, 1990<sup>3</sup>), 15.

conditions for all. Yet against the tendency of socialist societies to centralism, the social market economy as much as possible favors decentralization in the care for the disadvantaged through the involvement of mediating social agencies, such as churches, fraternities, charitable organizations, neighborhood sodalities and other voluntary associations.

Furthermore in the social market economy the economic activity remains distinguished from the political system, i. e. the economic planning is not a matter of the state, at least not primarily. Economic planning mainly remains the competence of the private entrepreneurs. Only in a subsidiary way is the state called upon to intervene, to the extent that this is required to prevent serious distortions and injustices in the economic process and to guarantee the achievement of the basic ends of the economy.

Over against a centrally planned, bureaucratic system the social market economy has several advantages. It opens spaces of freedom to all participants in the economic process. Also the broad population profits from it in the spheres of consumption, savings, formation of property, freedom of vocational choice and of place of work. It evinces higher efficiency in the use of the means of production, a better capacity for adaptation to social change and a clearer ability for innovation. In general the market economy is better equipped to solve problems. In it there is a good chance to maintain and strengthen economic units of moderate dimensions, efficient in production and easy to survey. A strong middle class is the core of the market economy. It guarantees the functioning of dynamic competition and is a pillar of economic strength. Social market economy and middle-class enterprise are two sides of the same coin.

After what has been explained so far, it can be said that to a large extent the social market economy meets the objectives of Catholic social doctrine. „The proponents of the Catholic Church’s social doctrine deem the market economy to be the right basic form for the economic system“.<sup>50</sup> More than other economic systems the social market economy agrees with the principles of Catholic social teaching. Developing countries repeatedly express the view that the social market economy is very unsatisfactory on the international level. But there are advantages and disadvantages for both sides in this system. Also the developed countries feel threatened by a free market policy on the international level, because it opens their markets to the cheaper goods of the so-called cheap-wage-countries. Efforts of adaptation are needed on both sides. But a solution to the international economic problems can only be expected from the market economy, even though it will require certain common regulations, and not from a system of central planning.

#### **4. Democratic socialism**

Akin to the social market economy, but closer to marxist thought, is democratic socialism. Like the former it favors a free market and approves of private ownership of property. Yet under the influence of its marxist roots, it backs state interference in the economy more than the social market economy does and tends to grant the state ultimate power in economic matters. In harmony with this, democratic socialism in some countries favors the nationalization of important branches of mining, industry and public utilities. It aims at a general approximation of incomes by means of progressive income and property taxes and social contributions

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<sup>50</sup> J. Card. Höffner, *Economic Systems and Economic Ethics*, l.c. 24. Approval of the „market economy“ is also expressed by John Paul II. (CA 42). Theodor Herr singles out the following points of affinity between the social market economy and Catholic social doctrine. Both defend the freedom of men and strive to grant them a maximum of self-determination, responsibility and creativity in the economic process. Both attribute a basically positive role to the principle of efficiency and competition in economic life. Both endorse a policy friendly to property and private industry. They espouse the principles of subsidiarity and of the common weal and underscore social responsibility (*Katholische Soziallehre. Eine Einführung*. Paderborn: Bonifatius, 1987, 140-2).

on the one hand and income subsidies, grants-in-aid and social assistance on the other. Such a policy of course reduces the possibility of capital accumulation; unfortunately it also reduces the incentives for extra efforts in economic activity. Entrepreneurs with the talent for economic ventures have a lesser chance to bring their capabilities to bear. Likewise in the wake of marxism, socialism often shows greater reserve in religious concerns and displays a liberal mentality in matters of culture, morality and education.

As an economic theory, socialism was largely defeated in the First World, while often remaining attractive to the Third World (and now becoming an alternative to marxist communism in the Second). Well known is the attempt of Tanzania to realize an African model of socialism. In spite of considerable development aid, in which the contribution of Sweden particularly excelled, the attempt failed. The reason was, among others, that „the farmers were ready to avail themselves of the social services of the government (schools, health care, drinking-water supply etc.), but did not honor them with the higher output in production for which they had been called upon.“<sup>51</sup> On the other hand countries like South Korea, Taiwan and Singapore, which deliberately opted for a system of market economy, reached a considerable standard of living and economic progress.

Socialist solutions in economic affairs are also attractive to liberation theology, sometimes more in the line of marxist socialism, using marxist analysis and advocating class struggle, sometimes more in the line of democratic socialism.<sup>52</sup> The point of departure is always the great inequalities in the distribution of wealth in the developing countries and the great poverty of the masses. To remedy this situation, a fairer distribution of the existing wealth is demanded. Yet „one cannot combat the horrible poverty in these countries simply through distribution, which, at best, would equal a drop in the bucket... relief is expected too quickly from mere distributional measures instead of bringing the question of increased production and even of higher productivity in general into view.“<sup>53</sup> The lot of the poor can only be improved by an economic policy which encourages creativity in economic ventures. Such creativity cannot be expected from an economy centrally planned in government offices. „No panel of experts, however bright, can plausibly make economic decisions for millions of their fellow citizens ... Unleashing the creative energies of the people is the single most important key, not only to respect for their individual human dignity, but to economic progress as well.“<sup>54</sup>

Among the presuppositions of economic creativity are education (on which depends the qualification of the working-classes), a spirit of work and enterprise, and capital formation (which is not possible without the readiness to save).<sup>55</sup> It should not be over-looked that it took the European nations several decades as well to overcome the poverty of the great masses in the process of industrialization and to reach satisfactory economic conditions for all. The poor will not be helped by raising Utopian ideals of an instantaneous economic prosperity to a po-

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<sup>51</sup> H. Sautter, *l.c.* 38.

<sup>52</sup> Clodovis Boff observes that the theologians of liberation more or less explicitly see socialism along the horizon of a new order of society („The Social Teaching of the Church and the Theology of Liberation: Opposing Social Practices?": *Concilium* 150,10/1981,19).

<sup>53</sup> A. Rauscher, *Private Property. It's Importance for Personal Freedom and Social Order*. Ordo Socialis No. 3 (Köln, n.d.; German original 1982), 26.

<sup>54</sup> M. Novak, *Freedom with Justice*, *l.c.* 182. It is worthy of note that in Sweden, which many regard as a model of democratic socialism avoiding the extremes of capitalism and communism, „government ownership amounts to only 7 percent - well below the West European average and less than half that of Thatcherite Britain“(*Newsweek*, March 5, 1990,9f)

<sup>55</sup> „The history of the economy from early capitalism until the present leaves no doubt that the economic progress of nations ... chiefly depends on three factors: on the qualification of the working-classes, on the spirit of enterprise, and on the formation of capital“(J. Messner, *Das Unternehmerbild in der katholischen Soziallehre*, ed. by Bund Katholischer Unternehmer. Beiträge zur Gesellschaftspolitik, Vol. 3. Köln, 1968, 15).

litical programme.<sup>56</sup> The courage to take small steps is needed.

In order to find a compromise between capitalism and marxism, a temptation exists for economic policy to combine weak economic incentives with bureaucratic socialism. The result is half-way solutions, which in the end fall between two poles and please no one.<sup>57</sup> Economic incentives must be resolute, although at the same time placed correctly. The advancement of small and medium business and industry merits priority.

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<sup>56</sup> Economic progress in the Latin American countries, as in other developing nations, presupposes fundamental changes which „have to comprise many things: the mentality of the population; the attitude of people to individual and common work; the conduct of the political leadership and civil servants; the structures of dominion on the local, regional and national level; the conditions of property; the organisation of foreign trade; the training and attitudes of the employers; ... the policy of armament.“ Every partial alteration in these factors can provoke the opposite of what is being intended. „A nationalization of the means of production can, if everything else remains the same, lead to even greater corruption and waste; the inequality of the material conditions of life may therewith increase and the supply of the population with essential goods deteriorate“ (H. Sautter, l.c. 54).

<sup>57</sup> Denis Goulet is of the opinion that especially the Christian democrats of Latin America have fallen prey to this unhappy compromise. He refers in particular to their experiments in Chile under Frei (1964 - 1970) and in Venezuela under Rafael Caldera (1969 - 1974) and Herrera Campins (1979 on). His considerations are worth noting („Economic Systems, Middle Way Theories, and Third World Realities“, in *Readings in Moral Theology No. 5: Official Catholic Social Teaching*, ed. by C.E. Curran and R.A. McCormick. New York: Paulist Press, 1986, 347-9).

### III. MARKET ECONOMY AT THE SERVICE OF HUMAN NEEDS

#### 1. The regulative function of market and competition

The market consists in the exchange of goods within the economic process. It is an important instrument to direct the economy towards the needs of the common weal. „In the form of demand, it conveys the orders of the consumer to the producer and it shows the producer what goods he can dispose of at economic prices ... It mobilizes all possible forces in the economic society in order to secure ampler and better provision for material and cultural needs.“<sup>58</sup> Prices being equal, the market will favor the best goods, because they will find the most purchasers; and quality being equal, the market will favor the cheapest goods, because they will sell best. Like a computer the various firms reliably attend to the different and always changing needs and demands of the customers. Moreover free market and free enterprise „also guarantee a careful use of the capital resources and raw materials, since the world-wide competition constantly forces the entrepreneurs to save costs and therewith capital and raw materials.“<sup>59</sup>

This process of selection on the part of the buyers naturally and inevitably results in competition among the producers and sellers. In normal circumstances and if not distorted by any manipulation, competition secures the buyers the best goods at the lowest possible price, while on the part of the producers only those will succeed who offer the best quality at the most favorable terms. This is the ordering function of competition in the social economy.

Yet at the same time competition requires a regulative principle to guarantee that it will function in the service of the goal of social economy. „Only a complete misunderstanding of human nature could have led the classical economists to assume that unrestricted free self-interest in competition must lead to a harmony of interests ... [A] large proportion of the members of society will always seek to assert their own self-interest at the expense of the rights of others. In the laissez-faire system, the result is unfair, ruinous, or too expensive competition.“<sup>60</sup>

Competition therefore requires an ordering, legal or otherwise, in accordance with the claims of the social end of economy. Because economic liberalism did not pay heed to this need, it led to monopoly capitalism, which is the end of free competition. Competition controlled by the law is one of the essential differences between liberal capitalism and the social market economy. Today a legal ordering of competition is regarded as necessary in all states. In the interest of the common good the law must assure „that no one who is capable of satisfying demand with cheaper or better goods should be prevented by any form of restriction of competition: his freedom of enterprise and his readiness to give better service in the general economic interest must be protected from all endeavors to eliminate such competition by monopolistic methods.“<sup>61</sup> Nevertheless state legislation alone cannot achieve an order of fair

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<sup>58</sup> J. Messner, *Social Ethics*, I. c. 755.

<sup>59</sup> Th. Herr, *l.c.*. 146. Also the encyclical „*Centesimus Annus*“ recognizes the free market as „the most efficient instrument for utilizing resources and effectively responding to needs“(no. 34), although it cautions that there are also many needs which the market is unable to satisfy and which therefore must be provided for in other ways.

<sup>60</sup> J. Messner, *Social Ethics*, I.c. 888. The abuses of unfettered competition have encountered the repeated criticism of the Church. „This accumulation of power, the characteristic note of the modern economic order, is a natural result of limitless free competition, which permits the survival of those only who are the strongest, which often means those who fight most relentlessly, who pay least heed to the dictates of conscience“(QA 107). „Individual initiative alone and the mere free play of competition could never assure successful development. One must avoid the risk of increasing still more the wealth of the rich and the domination of the strong, whilst leaving the poor in their misery and adding to the servitude of the oppressed“(PP33).

<sup>61</sup> J. Messner, *Social Ethics*, I.c. 891. „The immediate aim of the regulation of competition must be the establish-

competition, unless the vocational bodies themselves cooperate with the state and ensure that the norms are observed.

Free competition alone furthermore is not in a position to heed the human factor and ecological cost of production. It is not able to guarantee fair wages if, as is very often the case, the offer of work exceeds the demand; this has been pointed out earlier.

For the stimulation of just wages as well as other labor conditions the role of the labor unions has been crucial. In fact inasmuch as the unions have raised labor to a partner equal in strength to capital, they have secured to labor that equitable bargaining power which is the presupposition of a fair functioning of the labor market. Labor unions therefore must be considered an integral part of the social market system.

Free competition is likewise not able to do justice to the costs which result from the consequences of production for the environment and for human health. Not only industrial emissions, but also the use of chemicals (fertilizers, pest control) in agriculture and the entire motor traffic are part of this problem. Its gravity is becoming more evident from year to year. Only social and ecological legislation is able to cope with these factors and hidden costs of production. It should be noted that socialist societies have by no means been able to confront these problems more efficiently than free market economies. On the contrary, environmental problems have been ignored much more there than here.

Government intervention in the price structure is often favored by certain groups, so as to enable the poor to acquire such important means of subsistence as basic foods, clothing and housing at prices lower than the free market would permit. Yet experience shows that, if prices are too low, farmers and other producers are no longer willing to place their goods on the market; instead they only work for their own subsistence needs. „Whoever stabilizes prices, secures workshop places by subsidies, promises the developing countries higher prices, raises the wages, officially decrees low interest rates etc., has moral considerations on his side. The ethicists are precisely the ones who primarily demand state intervention in the economic process.“<sup>62</sup> Yet economists warn against the negative consequences of any interference with the optimum use of scarce resources. The results of such interference are shortages of goods on the market or - in the case of certain subsidies - unused overproduction and a waste of the resources of the community. These also offend against moral considerations. This however does not exclude that in some cases prices subsidized by the state for the benefit of the poor could be at least a temporary help and solution.

The principle of self-interest, which is at work in the market economy and in competition, admittedly is not the loftiest one. Yet it is not without character-forming value. „It suggests daily small acts of self-denial. By itself it cannot suffice to make a man virtuous, but it disciplines a number of citizens in habits of regularity, temperance, moderation, foresight, self-command“ and spurs them to exertion of their powers. Even if moralists should „judge it to be incomplete, it must nevertheless be adopted as necessary.“<sup>63</sup>

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ment and maintenance of equitable conditions. This equitableness is chiefly threatened by the preponderance in capital power of large corporations which are able to drive weaker competitors out of the market by direct or indirect (giving ‘extras’) price-cutting, in order first to achieve a monopoly or oligopoly position and then to secure increased profits“(ib. 905).

<sup>62</sup> W. Lachmann, *Leben wir auf Kosten der Dritten Welt?*, l.c.40.

<sup>63</sup> Alexis de Tocqueville, *Democracy in America*, Vol. 2 (New York: Vintage Books, 1945), 131.



## 2. The entrepreneur as servant of the common good

Catholic social doctrine has discovered the entrepreneur rather late;<sup>64</sup> generally it knows only the employer. And yet many millions work in business undertakings, small and large, of their own. In the crises of the industrial revolutions, the employer was usually and still is considered the one primarily responsible for the social problematic. But such a view does not do justice to the irreplaceable contribution of the entrepreneur to the progress of the economy and the hard work required of him. The social problems of a developing society are always the result of several factors, of which the relentless profit-seeking of some managers is only one.

Pope John Paul II has pointed out that „the degree of well-being which society today enjoys would be unthinkable without the dynamic figure of the business person, whose function consists of organizing human labor and the means of production so as to give rise to the goods and services necessary for the prosperity and progress of the community“<sup>65</sup>. Beyond political activism Christian social thought needs to give encouragement to „economic activism: savings, productive investments, invention, and enterprise. For these, too, are acts of creation that benefit the common good.“<sup>66</sup> The freedom of entrepreneurship, business and finance must be protected, although the accountability of this freedom to the common good must be assured and possible abuses of economic power curbed by the law.

The task of the entrepreneur is to find markets, to develop and to supply them. He has to provide the goods and services needed by society. This is an eminently social function and responsibility. Inasmuch as these goods and services are many, a maximum of private enterprise is desirable. „The more that planning minds are at work in economic cooperation, the more abundant will be the economic productivity ... If, for example, in a population of forty million there are two million large, medium, and small entrepreneurs in agriculture, industry, trade, and commerce striving to provide for needs under the pressure of competition, there will be a better assurance of attaining economic productivity and a rising standard of living than if twenty or two hundred officials, the case under socialistic economic planning, possess an economic planning monopoly.“<sup>67</sup>

The realization of a maximum of private enterprise demands that medium and smaller economic units be favored wherever their productivity equals or exceeds that of the large unit. This accords with the principle of subsidiarity. It furthermore promotes a wide distribution of economic power, preventing thus the socially and politically dangerous concentration of power in the hands of an oligarchy or the state. Moreover in smaller and medium-size enterprises the satisfaction of workers with their work and the security of the workshop place are higher. Middle-class enterprises tend to retain their workers in difficult times also. „Property which yields profit in conjunction with the work of the owner is the surest guarantee of a sound social order.“<sup>68</sup>

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<sup>64</sup> The Church's doctrine on property certainly implies the function of the entrepreneur. Paul VI. expresses his special appreciation for the service of management in an allocution to the Christian entrepreneurs of Italy, held June 8, 1964 (AAS 56, 1964, 574-9). It is also to be admitted that the entrepreneur has been discovered relatively late even by the very science of economy, i.c. by J. A. Schumpeter in his book *Theorie der wirtschaftlichen Entwicklung*, published 1912.

<sup>65</sup> Address to Business Men and Economic Managers, held May 22, 1983, at Milan (*L'Osservatore Romano*, May 23/4, 1983, p. 6; weekly edition in English, June 20, 1983, p. 1).

<sup>66</sup> M. Novak, *Freedom with Justice*, i.c. 53. It is deplorable that in certain environments „the virtues of economic activism are not only not taught, but treated with disdain.“ Intellectuals and political activists typically spurn the „bourgeoisie“ and „shopkeepers“. They often refer to such people as „middlemen“ or „parasites“, and view them chiefly as targets fat for taxation. Must Catholic social thought do likewise? (ib. 181; 217).

<sup>67</sup> J. Messner, *Social Ethics*, I. c. 768.

<sup>68</sup> J. Messner, *Social Ethics*, i.c. 932. ..Without a broadly based commercial class, the achievement of democracy

The satisfaction of the constantly fluctuating needs and demands of society together with the challenges of competition require of the entrepreneur constant adjustment and great flexibility. The perfect entrepreneur is an organizer, inventor, discoverer and conqueror. His motives are, besides that of making a living, the impulse towards creative development, the spirit of adventure, the aspiration for social prestige and, for many, the striving to be of service to the community.<sup>69</sup>

Of course the entrepreneur also must work with a profit, which is the means to the realization of the other ends. An unprofitable undertaking is bound to perish in the market economy. This is a loss not only to the owner but also to the employees, who will forfeit their work. Profitableness therefore becomes „an obligation in social ethics, because unprofitable undertakings are a liability to the economy and they cause loss of employment.“<sup>70</sup> The ideological use of the word profit, which since Karl Marx provokes strong repudiation in many minds, has to give way to a more sober judgment. Profit used as capital in the economy provides many social benefits in the form of new employment, goods, services, invention and new wealth. „One has only to ask an employee ... whether he prefers to work in an enterprise which makes a profit or in one whose figures are in the red, and the answer is plain from the start.“<sup>71</sup> If in spite of this, profit is so often disparaged as shady and sordid then, apart from ignorance concerning the economic function of profit, „the motive of envy certainly plays an important role.“<sup>72</sup> Contrary to such discredit, however, the entrepreneur who has generated the greatest possible surplus value, i. e. profit, without denying their due to the workers of course, has the presumption in his favor that he has acted in a competent, responsible way. „There is no injustice in the greater benefit being earned by a few, provided that the situation of persons not so fortunate is thereby improved.“<sup>73</sup>

Along with the ownership of the productive means goes the responsibility for those who have been employed as co-workers and helpers by the management. „Owners and managers have not created this capital on their own. They have benefited from the work of many others and from the local communities that support their endeavors. They are accountable to these workers and communities when making decisions.“<sup>74</sup> A certain degree of accountability is laid down and enforced everywhere today by the law. At times a danger even exists that the provisions of the law become too much of a burden and discourage new employments and further expansion of the workshop, which is a disservice to the common good. On the other hand obligations of fairness and loyalty exist in economic life which cannot be covered in legislative norms. Fairness and loyalty ought to mark the relations of the management to the customer, supplier, competitor and not least of all to the employee. Honesty in business affairs in particular is a realm which often leaves much to be desired. „Adherents of the social free

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is difficult and fragile ... It is no accident that the democracies of Western Europe, Australia, Canada, Israel, the United States, Japan, and Costa Rica rest upon a broad social base in commercial life“(M. Novak, *Freedom with Justice*, l.c. 180).

<sup>69</sup> The social origin of the entrepreneurs is by no means homogenous. They do not mainly derive from families with means and business experience, as one spontaneously is inclined to expect. Entrepreneurs stem from all classes: workers, aristocracy, liberal professions, farmers, landlords, artisans and, not least, public servants (cf. W. Weber, *Der Unternehmer. Eine umstrittene Sozialgestalt zwischen Ideologie und Wirklichkeit*. Köln: Hansstein, 1973, 42). „It may surprise most that property of (economic) means apparently is only a relatively insignificant prerequisite for the ascent to the top positions in the hierarchy of the economic leaders and decision makers“(ib. 45).

<sup>70</sup> J. Messner, *Social Ethics*, l.c. 771.

<sup>71</sup> W. Weber, l.c. 80.

<sup>72</sup> P. H. Werhahn, *The Entrepreneur. His Economic Function and Social Responsibility*. Ordo Socialis No. 4 (Trier: Paulinus, 1990), 23.

<sup>73</sup> J. Rawls, *A Theory of Justice* (Cambridge, Mass.: Belknap Press, 1971), 15. The legitimate role of profit is also acknowledged by John Paul II, as long as a business firm at the same time respects the basic human needs of its employees and its vocation to be „at the service of the whole of society“(CA 35).

<sup>74</sup> *Economic Justice for All*, l.c., no. 1 13.

market system underline the need for a strong ethical education. Without honesty, the free market cannot function for the common good."<sup>75</sup>

„Every effort should be made that the enterprise become a community of persons“(MM 91). Reasons of profitability and cost-saving can never be made a pretext for ignoring the values of true humanity, which are the veritable end of the economy. In the last analysis respect for these values even enhances profitability also. The English factory-owner Robert Owen, in the first half of the last century, once remarked that experience certainly shows that a cleanly wiped machine works more efficiently and reliably than a dirty and messy one. How much more will human beings gain in strength and efficiency if one treats them well and with care. Entrepreneurs realize ever more the need for communication, mutual concern and solidarity among management and workers.

### 3. Consumer ethics

The question of economic ethics is basically also one of consumption ethics. The demands of the consumers determine the production to a large extent and even decisively. The ethics of consumption acquires an enhanced importance in conditions of increased living standards, which more readily tempt to luxury and extravagance. Yet „every luxury consumption which is not economically justifiable constitutes an offence against the thrift which is enjoined by social ethics.“<sup>76</sup> The choices and demands of the consumers must gain their orientation from the material and cultural tasks indicated by the existential ends of men and from the needs of the common good, not only of one nation, but of all of humanity and the entire creation. What has been said about the authentic end of the social economy is also pertinent to the ethics of consumption.

An important role in this respect devolves upon the housekeepers. How much depends on their economic decisions can be gathered from the fact that more than half the national income passes through their hands.<sup>77</sup>

Demand and consumption determine the social economy as much as production and investment.

Modern welfare societies are characterized by a mentality of liberal consumption. The attitudes of getting and taking are much enhanced at the expense of a readiness to serve and to contribute. The state is above all regarded as an institution of supply service which, like a magician, should give to all from inexhaustible financial resources and, if possible, take from nobody. While various forms of egoism gain ground, personal responsibility is weakened. This cannot but hurt the ties of solidarity and the cohesion of society. The system of a social market economy alone is not able to cope with this deficit. It must be embedded in the more comprehensive order of man's higher destiny and calling.

„It is not wrong to live better; what is wrong is a style of life which is presumed to be better when it is directed towards 'having' rather than 'being', and which wants to have more, not in order to be more but in order to spend life in enjoyment as an end in itself. It is therefore necessary to create life-styles in which the quest for truth, beauty, goodness and communion with others for the sake of common growth are the factors which determine consumer choices, savings and investments“(CA 36).

Of late the ecological crisis has created a growing awareness that all the participants in the

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<sup>75</sup> B. Haring, *Free and Faithful in Christ*, Vol. 3, 1981, 285.

<sup>76</sup> J. Messner: *Social Ethics*, I. c. 763

<sup>77</sup> Cf. J. Messner: *Social Ethics*, I.c. 764.

economy, including the consumers, are called upon to protect the human habitat by responsible economic conduct. More than any abstract considerations the concrete dangers to the environment prove to modern men the need of a consumer ethics.

## IV. ECONOMIC ROLE OF THE STATE

In principle the relation between politics and economy is this: The object of politics is the temporal or common weal of men in general. The object of the economy is the supply of the community with all material, cultural or spiritual goods calculable at a price and their offer in return for a price (cultural and spiritual goods of this kind for example are, as already mentioned, the information provided by the mass media). Insofar as the object of politics is the more comprehensive one, this „proves the primacy of politics over and against the economy.“<sup>78</sup>

Questions of economic policy are doubtless among the major issues of electoral campaigns. It is legitimate and proper if politicians exert themselves to find the best answers to the economic needs of their country and present their programs to the electorate. Irresponsible however are economic policies inspired by reasons alien to the economy and motivated purely by the political end of gaining votes or of inflicting a set-back on the political opponent. Moreover the advocacy of definite economic policies is responsible only if based on a proper knowledge of the facts of economic reality.

Admittedly the demands on the politicians are many and the resources of the nations are limited, in many nations even extremely limited. The correct solutions are often not self-evident, and it is difficult for the state to make ends meet. In order to achieve this in the best possible way, the political leader will need wisdom, wisdom combined with courage; it is a charisma akin to genius.<sup>79</sup>

### 1. Regard for the principle of subsidiarity

The principle of subsidiarity requires, here as in all other realms of the common weal, that the state leave to individuals and intermediate bodies what they are able to achieve by their own capabilities and intervene only to the extent that they are unable to secure important needs of the citizens. Presupposed of course is that with the assistance of the state these wants can indeed be supplied, and that more efficiently.

The rule valid for the subsidiary role of the state in general fully applies to the realm of economy: as much individual responsibility as possible, as much state intervention as necessary. This is the directive of Pope John XXIII when he writes: „For this principle must always be retained: that state activity in the economic field, no matter what its breadth or depth may be, ought not to be exercised in such a way as to curtail an individual’s freedom of personal initiative. Rather it should work to expand that freedom as much as possible by the effective protection of the essential personal rights of each and every individual“(PT 65; cf. MM 55).

In exceptional circumstances the state can „exercise a substitute function, when social sectors or business systems are too weak or are just getting under way, and are not equal to the task at hand. Such supplementary interventions, which are justified by urgent reasons touching the common good, must be as brief as possible, so as to avoid removing permanently from society and business systems the functions which are properly theirs and so as to avoid enlarging excessively the sphere of state intervention to the detriment of both economic and civil freedom“(CA 48).

The presumption stands for a person’s right to the free exercise of his activity, while legisla-

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<sup>78</sup> O. von Nell-Breuning: *l.c.* 181. In „*Octogesima Adveniens*“ Paul VI writes: „Each man feels that in the social and economic field, both national and international, the ultimate decision rests with political power“(no. 46).

<sup>79</sup> M. Novak, *Freedom with Justice*, *l.c.* 29.

tive interventions by the state have the burden of proof. „In principle the free economy does not stand in need of justification, i. e. the free development and activity of individuals and freely formed groups, who want to be active for their livelihood and ultimately for their self-realization, but vice versa the limitation of liberty through interference and regulations from above.“<sup>80</sup>

## 2. Creation of just institutions

The appeal to morality is necessary, but it alone will not suffice to give order to economic life. Prior to it, every effort must be made to create just economic institutions.

„Sinful“ social structures are often denounced in Christian quarters today, but the ideal of the just order in the abstract is more easily proclaimed than just structures in the concrete are created. The creation of just economic institutions is no small matter. As in all things human, men must do the best they can. Institutions cannot be built in a cultural vacuum. They depend for their appropriate functioning upon the ethos alive in a culture. „An ethos within which family ties overrule standards of equality before the law is bound to produce institutions flawed by favoritism, nepotism, and respect, not for rules of equality, but for rules of family belonging.“<sup>81</sup> A different ethos is desirable; but its creation will need a process of education. In the concrete situation, here as always, only an approximation to the ideal of a just society is possible. To achieve the best possible approximation constitutes the charisma of the political leader.

State authority has to check the anti-social tendencies of individuals and intermediate bodies. It has to counteract serious inequalities in power resulting from a concentration of wealth in the hands of a few. But vice versa, appropriate institutions must also check and limit the power of the state. Otherwise state authority too easily turns to despotism, oligarchy and dictatorship. Such a counter-balance is provided by a strong, economically independent middle class, combined with democratic institutions.<sup>82</sup>

A fundamental obligation of justice is the maintenance of the stability of the value of money. A high rate of inflation is a most unjust redistribution of wealth to the detriment of the poor. Those who suffer most from inflation are the simple people who deposit their savings in saving accounts or who live on pensions and similar revenues, which are only with difficulty raised and adjusted to inflation. Of course inflation also discourages savings with negative effects on the whole economy.

Today more than ever the fate of the individual not only depends on his personal proficiency, but also on the social and economic conditions created by the planning of the state. Entire groups of people can be reduced to want because of changed economic conditions, e. g. in the agrarian sector or in the mining industry. Economic policy therefore can be realized responsibly only in conjunction with social and labor policy, family and environment policy, development and educational policy.

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<sup>80</sup> O. von Nell-Breuning, l.c. 170.

<sup>81</sup> M. Novak, *Freedom with Justice*, l.c. 30.

<sup>82</sup> „Among the 160 regimes now incarnated on this planet, which twenty or thirty nations best protect human rights? All are liberal societies. Consider economic development. Among the 160 existing regimes, which twenty or thirty nations best nourish the creativity and invention, the individual liberty and voluntary teamwork, which alone lead to economic progress? Some forty years ago, Japan ranked below several nations in Latin America; its workmanship had one of the lowest of reputations. Liberal institutions have helped to propel it in meteoric fashion“ (M. Novak, *Freedom with Justice*, l.c. 143). Even if the record of human rights is not always perfect in the liberal, democratic societies extolled by Novak, one must grant him that overall human rights are protected best in them.

Just economic institutions are indispensable for society. First and foremost the values contained in the ends of the economy must be embodied in the legal order. This is a process of dynamic character, just as the economy itself is dynamic in nature; it always requires new adjustments of the social and legal order. The principle *Societas semper reformanda* also applies to the order of the social economy. Yet over and above this, the more the moral values of the economic order are internalized by the conscience of the citizens, the better will their realization be assured. Unfortunately „the factual behavior of human beings is anything but what the order of values actually demands. Whether employer or employee, all think of their interests.“<sup>83</sup> This is to some extent understandable and natural; but there is a real danger that self-interest stifles the pursuance of the higher values. „Therefore it is important that the moral and cultural institutions also meet their obligations as well as the economic institutions meet theirs!“ The churches are especially called upon to serve society in this need.<sup>84</sup>

### 3. Preferential attention to the poor

Among the basic duties of governments is the guarantee of minimum conditions of human dignity for all. Of highest priority is the fulfillment of the basic needs of the poor. Article 25 of The Declaration on Human Rights by the United Nations of 1948 pertinently sums up the obligations to be attended to by the civic community in this regard. „Everyone has the right to a standard of living adequate for health and well-being for himself and his family, including food, clothing, housing, medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age, and other lack of livelihood in circumstances beyond control.“

This does not mean that the state has to provide for all these needs itself, as already pointed out. Too easily the conclusion is drawn, from the identification of a social need, that the government has a duty to intervene. Yet social is not statist. Cardinal Höffner justly remarks that „the trend towards an all-providing state is disquieting. Catholic social teaching advocates, for the sake of human beings themselves, a strengthening of self-responsibility and a rejection of welfare-statism. In the long term, a nation cannot spend more than it has earned by its labors.“<sup>85</sup> The nuclear and extended families have duties in this regard towards their members. Intermediate bodies, such as charitable organizations, have a role to play. It fully agrees with the principle of subsidiarity if these groups are called upon first. Yet whenever the help of these groups is insufficient or where it even entirely fails, the state has a duty to provide assistance (of course to the extent that the government is in a condition to do so).

People frequently assume that more often than not the poor are poor because they are indolent and shy away from hard work. The U.S. Bishops protest against this as a prejudice. „Research has consistently demonstrated that people who are poor have the same strong desire to work that characterizes the rest of the population. We ask everyone to refrain from actions, words, or attitudes that stigmatize the poor, that exaggerate the benefits received by the poor, and that inflate the amount of fraud in welfare payment. These are symptoms of a punitive attitude towards the poor.“<sup>86</sup> Rather, millions of people are poor because they have lost their jobs or because wages are too low.

The first task in the battle against poverty therefore „must be to build and sustain a healthy

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<sup>83</sup> Arthur F. Utz, „Gemeinsames und Verschiedenes in der marxistischen und christlichen Wirtschaftsanalyse“, in *Kann der Christ Marxist sein ? Muss er Kapitalist sein?*, ed. by the same (Bonn: Scientia Humana Institut, 1982), 53.

<sup>84</sup> Werner Lachmann, *Ausweg aus der Krise. Fragen eines Christen an Marktwirtschaft und Sozialstaat* (Wuppertal: Brockhaus, 1984), 61. Cf. Paul VI, „*Evangelii Nuntiandi*“ (1975), no. 36.

<sup>85</sup> J. Card. Höffner, *Economic Systems and Economic Ethics*, l.c. 33.

<sup>86</sup> *Economic Justice for All*, l.c. nos. 193f.

economy that provides employment opportunities at just wages for all adults who are able to work“.<sup>87</sup> At the same time all of society must make a strong commitment to education of the poor. Any long-term solution to poverty „must pay serious attention to education, public and private, in school and out of school. Lack of adequate education, especially in the inner city setting, prevents many poor people from escaping poverty.“<sup>88</sup> The importance of education as a means of overcoming poverty cannot be overemphasized. Working to improve education is an investment in the future of any nation.

#### 4. Socialization and land reform

Socialization is the transfer of certain properties to the ownership of the state (nationalization) or of other public law corporations, especially municipalities (communalization). Socialization is justified if it is required by the needs of the common good. But in every case in which socialization is under consideration, it must be shown that it is indeed in the interest of the general good, for socialization interferes with the sphere of private ownership and with the rights of those whose property is expropriated.

Socialization accordingly is not the remedy for all economic grievances. John Paul II, who has the conditions of Poland under communist rule in view, warns: „Many deeply desired reforms cannot be achieved by an a priori elimination of private ownership of the means of production. For it must be noted that merely taking these means of production (capital) out of the hands of their private owners is not enough to ensure their satisfactory socialization. They cease to be the property of a certain social group, namely the private owners, and become the property of organized society, coming under the administration and direct control of another group of people ... This group in authority may carry out its task satisfactorily from the point of view of the priority of labor; but it may also carry it out badly by claiming for itself a monopoly of the administration and disposal of the means of production and not refraining even from offending basic human rights“(LE 14).

Experience shows that, more often than not, state-owned production facilities are not run satisfactorily, and this for various reasons. State-owned enterprises usually work less profitably than those in private hands. „No one manages industrial concerns worse than the state.“<sup>89</sup> The reason is that the function of the entrepreneur and that of the civil servant are quite different things. Besides, the incentives for economic venture and thrifty use of available means are wanting in public undertakings. If these undertakings are state monopolies, as is very often the case, they lack the challenges of competition as a measure of their efficiency and a criterion for truly economic price formation.<sup>90</sup>

At present there is a growing skepticism towards public ownership of enterprises. In some European countries the difficulties of controlling effectively the monopolies of public enterprises have become so great that, since the middle of the eighties, governments on both sides of the political spectrum increasingly decide for privatization or partial privatization of state monopolies. Not the least reason for this is that the budgetary strain by state enterprises running in the red is no longer tolerable and the interest of the tax paying citizens is being violated. In addition, scandals often rack enterprises belonging to the public arm and give rise to doubts and a critical attitude towards them.

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<sup>87</sup> *Ib.no.* 196. See the entire, very instructive section on employment, nos. 136-169.

<sup>88</sup> *ft. no.* 203.

<sup>89</sup> Otto Bauer, onetime head of the Austrian Social Democratic Party. Quoted by J. Messner, *Social Ethics*, I.c. 940.

<sup>90</sup> See the good exposition on the failure of the state in the economic regard by Christian Watrin, „*Marktversagen*“ versus „*Staatsversagen*“. *Zur Rolle von Markt und Staat in einer freien Gesellschaft*, ed. by Vorort des Schweizerischen Handels- und Industrie-Vereins (Postfach 4138, 8022 Zürich, 1986), 14-26.



Socialization therefore should be the last resort to remedy economic grievances and abuses. If equally or more effective alternatives are available, they merit to be preferred. The abuse of too extensive landholdings, for example, can more efficiently be remedied by land reform measures than by collectivization. In the realm of public ownership also the principle of subsidiarity is of fundamental importance and must be observed (cf. MM 117). State control of the means of production is least desirable.

State control is always justified where production of the materials for nuclear energy is concerned. There may be grounds for socializing those consumer goods industries which supply basic needs of the community and which cannot be left to the good will of private enterprises, such as water, gas, electricity, telephone and public transportation services. Important minerals, like coal and ores, or so-called key industries upon which a large proportion of a country's industry depends, may become an object of socialization, if their safe functioning cannot otherwise be guaranteed, or if the necessary private capital for its development cannot be secured, or also if there is a need - as e. g. in the case of minerals - to prevent an exploitation which could be detrimental to the national economy or to the environment. Finally nationalization of important branches of the economy may at times be called for in developing nations, where private initiative is still deficient and clamorous injustices in the distribution of profits have to be redressed. But in this case as in many of the others indicated, socialization could only be a subsidiary action of the state, which should be reversed as soon as private citizens are in a condition to take over the management responsibly and efficiently.

J. Messner is of the view, and his reasons seem valid, that no adequate grounds exist for the socialization of the banks. „Credit possesses a fundamental importance for the whole of the social economy, which is surpassed only by that of the soil. He who controls credit controls the economy. If the state controls it, the whole economy is in the grip of the state. State ownership of a bank or the nationalization of the central issuing bank is a different matter, however. For obvious reasons, enterprises with cultural aims must be completely exempt from nationalization. Such enterprises are the press and book publishing. This does not preclude the state's maintaining, for example, its own printing press or publishing house or newspaper, provided that these do not make use of unfair methods of competition.“<sup>91</sup> The same holds for television networks. Finally there is no sufficient justification for the socialization of agricultural land. Political, social and economic reasons make it a rather vital task of the state to arrange such a distribution of landed property that as many families as possible can obtain economic and social security by their own work on their own soil.

The sound and just distribution of agricultural land is the concern of the social movement called land reform. In many countries vast landholdings have accumulated in the hands of a few landlords, who are often not able or not even interested in cultivating them well, while the tenants who have tilled the land for generations and invested their labor in it are kept in a kind of servitude, unable to acquire a farm of their own.

Vatican Council II regards this as a serious social evil, which urgently needs to be remedied. „In many underdeveloped areas there are large or even gigantic rural estates which are only moderately cultivated or lie completely idle for the sake of profit. At the same time the majority of the people are either without land or have only very small holdings, and there is evident and urgent need to increase land productivity. It is not rare for those who are hired to work for the landowners, or who till a portion of the land as tenants, to receive a wage or income unworthy of human beings, to lack decent housing, and to be exploited by middlemen ... Depending on circumstances, therefore, reforms must be instituted if income is to grow, working conditions improve, job security increase, and an incentive to working on one's own initiative

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<sup>91</sup> J. Messner, *Social Ethics*, l.c. 939f.

be provided. Indeed, insufficiently cultivated estates should be distributed to those who can make these lands fruitful“(GS 71; cf. PP 24).

Yet redistribution of the land alone does not guarantee productive use. The farmers must also be able to manage their enterprises independently and cannot content themselves with antiquated methods of tillage. John XXIII speaks of countries „where, in spite of rich natural resources, not enough food is produced to feed the population because of primitive methods of agriculture“(MM 154). The farmers have an obligation to learn and make use of the new methods of intensive farming for producing higher yields, and governments must assist them, as much as possible, to reach this end.<sup>92</sup> „Still, whenever the common good requires expropriation, compensation must be reckoned in equity after all the circumstances have been weighed“(GS 71). This applies to expropriation in the train of socialization as well as for purposes of land reform. Compensation to the owner for the expropriated possessions is in principle a question of commutative justice, which demands a basic equivalence between what is given and what is received. In the case of the expropriation of a territory for a street or a government building, the owner has to be compensated with the fair equivalent of the value of the lot. No reason exists to give him less than the neighboring lots will get if sold to private bidders. The situation is however different in the case of the expropriation of large landholdings for the purpose of land reform or of entire branches of the economy, such as coal mining or the railways. A full compensation might exceed the financial capacity of the state. „Under such conditions the claim to the full equivalent of the value ceases. Supreme norm for the amount of compensation is always the common weal.“<sup>93</sup>

The ascertainment of the value of the property often meets with great difficulties. The goods to be given in exchange are another problem. Compensation in the form of money alone may not always be a sufficient equivalent, especially where the currency is steadily decreasing in value. On the other hand increases in the value of land (land rent) which result from the work of others and not of the owner or from public facilities provided by the state (such as roads, water, electricity, etc.) do not necessarily have to be refunded to the owner. But attention must be paid that those whose property is expropriated are not placed at a considerable disadvantage vis-a-vis those of comparable property who are able to retain it. If the compensation is too low and unfair, the state would be guilty of injustice and liable to restitution. The question should be settled by an honorable agreement between the state and the owners.

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<sup>92</sup> A. Rauscher notes that, if „well-intentioned agrarian reforms in Columbia, Peru, and Mexico have not brought about the hoped-for success, then this is because redistribution of the land alone and the entry of the farmers hitherto dependent on the big landowners into the land register as new owners do not yet guarantee a productive use. This will only succeed if the farmers are also capable of independently managing their enterprises. The state should never lose these presuppositions from view“(Private Property, l.c. 44).

<sup>93</sup> Franz Klüber, *Katholische Eigentumslehre* (Osnabrück: A. Fromm, 1968), 110.

## V. ECONOMIC COOPERATION ON THE INTERNATIONAL LEVEL

There is agreement that international economic cooperation is indispensable for the prosperity of all nations. The organized community of nations must foster cooperation in the interest of all. This is a demand already imposed by purely economic facts and needs. But economic policies must be shaped by values that transcend the merely economic. Human solidarity and Christian love challenge all economic actors to overcome conditions of deprivation and misery in the human family. „Basic justice implies that all peoples are entitled to participate in the increasingly interdependent global economy in a way that ensures their freedom and dignity. When whole communities are effectively left out or excluded from equitable participation in the international order, basic justice is violated. We want a world that works fairly for all.“<sup>94</sup>

### 1. The order of international economy

What has been said about the authentic end of the social economy also applies to international relations. Above all an existence worthy of a human being ought to be secured for all men. Two things especially pertain to this: a sufficient livelihood and a meaningful work or occupation. Both conditions still leave much to be desired in our present world. Improvements in this regard depend much on the equitable pursuit and expansion of international trade.

International economy is fundamentally ruled by the free market order. „In the modern international economy, each country functions like a business. It makes no difference whether it is internally socialist, communist, or capitalist - in the global marketplace of buying and selling, each country tries to sell its products and buy the products of others on the best possible terms.“<sup>95</sup> Quite apart from the fact that no central authority exists to enforce a controlled economy on the international level, the social market economy merits to be preferred for the same reasons here as on the national level. The purpose of the international economic cooperation „is best achieved when the demand for goods and services is universally satisfied at minimum production costs. From this the principle necessarily follows: as much free trade as possible, that is, as much as is compatible with the social ends“ of the national and international economies.<sup>96</sup>

Limits are set to the free trade principle, firstly, by the need of protecting particular industries in a country against a too keen foreign competition. Such a protection may be required for infant industries which have to be helped to develop fully in order to face competition, or for industries which are politically or economically indispensable (at the cost of permanent sacrifices). The means to this end are protective duties. Secondly, limits are set to free trade by the necessity to protect the economically weaker and politically dependent nations against exploitation. Provision of this protection is a function of the United Nations (UNO). Which measures and agreements will best suit this purpose, depends on the concrete case and situation. There are hardly any measures without undesirable side effects for one or other party. Political compromises therefore will be inevitable.

Although almost all nations of the free world in principle declare themselves in favor of free foreign trade, in practice many restrictions exist. The developing nations are especially hard hit, when the industrialized countries subsidize their exports and industries and impose duties on the import of semi-finished or finished products from developing nations, while the raw materials of the latter are imported duty free. This „can mean the death sentence to the upward

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<sup>94</sup> *Economic Justice for All*, l.c. no. 258.

<sup>95</sup> A. D. Corson-Finnerty, *World Citizen. Action for Global Justice* (Maryknoll, N.Y.: Orbis, 1982), 20.

<sup>96</sup> J. Messner, *Social Ethics*, l.c. 949f.

development of entire developing nations.<sup>97</sup> Of course the elimination of subsidies or duties for less sophisticated commodities, such as agrarian products, pig-iron, textiles and footwear, will hurt the more expensive producers in the industrialized nations together with their workers. The low cost competition from abroad may force them to reduce or often enough even to close down. But the U.S. Bishops correctly remark that the industrialized countries „can better adjust to trade dislocations than can poverty-ridden developing countries.“<sup>98</sup> Solidarity among the nations becomes concrete here. Enterprises which are endangered by structural changes of this kind ought to be assisted to invest in more promising local productions or to transfer their hitherto productions to developing nations. After initial hardships, the division of labor brought about by the international competition of free trade will also serve the nations of the First World best.

Yet with the elimination of state interference in international trade alone matters are not settled. Greater international control is also required over the large private corporations, so that they cannot easily use their superior wealth and inside knowledge to unfair advantage in relations with the less developed countries. A code of conduct for foreign corporations is judged opportune, „that recognizes their quasi-public character and encourages both development and the equitable distribution of their benefits. Transnational corporations should be required to adopt such a code, and to conform their behavior to its provisions.“<sup>99</sup> It is most appropriate that the United Nations take the lead in this and similar projects of international trade. Developing nations moreover need the active assistance of the industrialized countries to balance their economic inferiority, to promote industry in their territories and to satisfy the needs of their population. This leads to the next point.

## 2. Economic development and global solidarity

Just as the conquest of national poverty was the social question of the 19th century, so the conquest of international poverty with its intolerable gap in prosperity is the challenge of the 20th century. From the outset it should be noted that „the poverty of the developing nations has many causes. Every mono-causal explanation and any attempt at solutions based thereon would side-step the real problems.“<sup>100</sup> At the same time, in an economy which has grown worldwide and where all nations are interdependent to a greater or lesser degree, nobody can exempt himself from responsibility for the developing nations. „Interdependence must be transformed into solidarity“ between the rich nations and the poor (SRS 39), but also between

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<sup>97</sup> O. von Nell-Breuning, *l.c.* 300.

<sup>98</sup> *Economic Justice for All*, *l.c.* no. 270. „In 1966, Brazil tried to broaden its coffee industry by setting up factories that could produce instant coffee from the raw beans. U.S. firms put pressure on their government, which in turn notified Brazil that it would cancel its participation in the International Coffee Agreement (an agreement designed to maintain stable prices) and would also cancel all U.S. aid. Brazil gave in, imposing an export tax on its own producers, forcing them to fold“(A. D. Corson-Finnerty, *l.c.* 24).

<sup>99</sup> *Economic Justice for All*, *l.c.* no. 280.

<sup>100</sup> H. Sautter: *l.c.* 131. The author further notes that „the prosperity of the industrialized nations is primarily the result of their own labour, but it leads to consequences which can impair self-reliant development processes in the Third World“(ib.). One point where the colonial powers can be blamed by their former colonies is that Britain has in principle imported raw materials from its colonies, while keeping down the development of manufacturing industries by protecting the British mother country through customs duties against goods manufactured in its colonies. Another mistake was that foreign investment often came from one country and even from one corporation in that country only. The consequence was a disproportionate position of power for that enterprise, as e. g. in Latin America, which often far exceeded the power of the local government and was incompatible with democracy, sovereignty and free market economy. Of course individual foreign enterprises have repeatedly used unfair business methods in the colonies, as they try to do and often enough actually succeed in doing also at home. But this is not a policy of colonial powers nor a principal source of their wealth. The wealth of the industrialized nations in fact results much more from their volume of trade with each other (75%) than with that of Third World nations (12%). The remaining 13% constitute trade between west and east and between Third World nations among each other (1988).

the developing nations themselves (ib. 45).

The cause of the superior power of the industrialized nations and the powerlessness of the developing countries is, at least directly, not so much the wealth of the ones and the poverty of the others, but rather the social and civilisatory backlog (e. g. illiteracy, lack in proficiency, group allegiances) of the latter, which hinders them from using their potential in manpower and natural resources to the full.<sup>101</sup> The developed nations must help the underdeveloped. But the causes of poverty „flow, for the most part, from the primitiveness or backwardness of the economic systems“. To remedy this, instruction in skills is necessary and a starting capital to speed up the „economic development with the help of modern methods“(MM 163). In this effort less attention ought to be given to large organizations and complex bureaucracies. A multitude of small businesses must spring up. The main thrust of the economic progress of a nation comes from its small family businesses.

Often all the natural prerequisites for a flourishing agriculture are given, but impediments of a political and socio-economic nature stand in the way: old-fashioned feudal systems, primitive farming methods, lack of vocational training, lack of capital, etc. Their removal is to a great extent a task for the developing nations themselves. Price controls for agricultural products, well-intentioned as help for the poor, leave little profit for the farmers; consequently production remains low to the detriment of all<sup>102</sup>. Improved earnings for farm products prevent rural exodus to the towns and create possibilities of existence for small trade in the countryside. „People must be enabled either to grow or to buy the food they need, without depending on an indefinite dole; there is no substitute for long-term agricultural and food-system development in the nations now caught in the grip of hunger and starvation. Most authorities agree that the key to this development is the small farmers.“<sup>103</sup>

Foreign investment, risky though it may be both for the investing corporation and the developing country, is an important form of economic aid by means of needed capital, technology and managerial expertise. Care must be taken not to create dependency in this process. Developing nations are well-advised to diversify production as well as trading partners, and to invite investments from different nations. „Both the products and the technologies of the investing firms should be appropriate to the developing country, neither catering just to a small number of high-income consumers, nor establishing capital-intensive processes that displace labor, especially in the agricultural sector.“<sup>104</sup>

The urgency that industrialized nations adhere fully to the principle of free trade and eliminate import duties especially on products imported from developing nations, even though it will require sacrifices and adjustments from them, has already been mentioned. This is a most constructive contribution to the development of the poorer nations. „Christians therefore

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<sup>101</sup> Cf. O. von Nell-Breuning, *Gerechtigkeit und Freiheit*, I.c. 304. Repeatedly economic dependency on the wealthier nations has been blamed for the poverty of the developing countries. But this is not the complete picture. „Dependency theory, first advanced in the 1960s, has not held up well to empirical analysis. It fails to explain both why some recently poor nations (such as Japan) have made rapid progress and why some nations highly favored in nature both in mineral and agricultural resources do relatively poorly. It fails, too, to explain why some minority cultures, even when discriminated against, do well even within poor nations“(M. Novak: *Freedom with Justice*, I.c. 172).

<sup>102</sup> When price controls were removed from products in India, production soared, and the new production kept food prices down. „In less than two years... food lines and rationing are gone. The abolition of collective farming has not only made the country self-sufficient in food but produced a 1.5 million-ton rice surplus for export“ in 1989 (*Newsweek*, March 19, 1990,33).

<sup>103</sup> *Economic Justice for All*, I.c. no. 283. „But recognizing the long-term problem does not dissolve the short-term obligation of the world's major food-exporting nations to provide food aid sufficient to meet the nutritional needs of poor people, and to provide it not simply to dispose of surpluses but in a way that does not discourage local food production“(ib. no. 284).

<sup>104</sup> *ib.* no. 279.

should commit themselves to the unrestricted dismantling of protections for products from developing countries."<sup>105</sup>

Credit and loans „can be considered a contribution to development, something desirable and legitimate in itself“. But in the changing conditions of the financial market, economic aid by loans can also turn „into a counterproductive mechanism. This is because the debtor nations, in order to service their debt, find themselves obliged to export the capital needed for improving or at least maintaining their standard of living“. This should make the donor nations „reflect on the ethical character of the interdependence of peoples“(SRS 19).<sup>106</sup> Reasons of solidarity may oblige, under such conditions, to remit at least part of the loans.

It cannot be ignored that the population tends to grow too rapidly precisely in some of the poorer nations of the world and that the resources of the earth are finite. Reflecting on this, Pope Paul VI states: „It is true that too frequently an accelerated demographic increase adds its own difficulties to the problems of development: the size of the population increases more rapidly than available resources, and things are found to have reached apparently an impasse. From that moment the temptation is great to check the demographic increase by means of radical measures. It is certain that public authorities can intervene, within the limit of their competence, by favoring the availability of appropriate information and by adopting suitable measures, provided that these be in conformity with the moral law and that they respect the rightful freedom of married couples“(PP 37; cf. GS 87; SRS 25).

Obviously development aid in the strictest sense of assistance in the form of free grants is also needed. Governments as well as private organizations and private donors are the sources. It is not least here that the richer nations are called upon for generous and unselfish help for the needy. „Development aid must be considerably expanded even if this requires big sacrifices.“<sup>107</sup>

As to the concrete projects targeted, experts advise that „international development aid should not start by establishing prestigious large-scale projects, but by promoting labor-intensive activities at a sub-structural level, such as building roads, bridges, railways, water pipelines, etc. At the same time, a large number of small and medium-sized enterprises should be created to produce consumer goods (textiles, furniture, household effects, etc.), so that there is an appropriate supply of consumer goods for the wages earned from building up the infrastructure. Otherwise, prices would rise and poverty would remain unchanged.“<sup>108</sup> With this coincide the ideas of A.T. Ariyaratne, an economist in Sri Lanka. Development should be based on a people's own traditions and values and start from the grass-roots. „The technological knowledge prevailing at the people's level and the available local resources should be used initially. Progressively and appropriately it could be upgraded with advanced knowledge. National development plans should be based, not partially but totally on this broad-based people's participation. It should first strive to satisfy the basic needs of the people and not artificially created wants that are blind imitations from materialistic cultures.“<sup>109</sup>

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<sup>105</sup> W. Lachmann, *Leben wir auf Kosten der Dritten Welt?* l.c. 92f.

<sup>106</sup> The question of international debt has been dealt with in detail by the Pont. Com mission „Iustitia et Pax“ in its document *At the Service of the Human Community: An Ethical Approach to the International Debt Question*, 27 Dec. 1986 (*Enchiridion Vaticanum*, Vol. 10. Bologna: EDB, 1989,770-797).

<sup>107</sup> J. Card. Höffner, „The world economy in the light of Catholic social teaching“, in *Church and Economy. Common Responsibility for the Future of the World Economy*, ed. by J. Thesing (Mainz: v. Hase & Koehler, 1987), 44.

<sup>108</sup> 76.45.

<sup>109</sup> A.T. Ariyaratne, *Collected Works*, Vol. I. Dehiwala, Sri Lanka, n. d., 134; quoted by D. Goulet in *Readings in Moral Theology No. 5: Official Catholic Social Teaching*, ed. by C.E. Curran and R.A. McCormick (New York: Paulist Press, 1986), 353.

Of fundamental importance for the development of Third World nations has been the contribution of the churches and similar organizations. Through the build-up of the educational system and their entire charitable activity, they have contributed substantially to the development of the nations of the Third World. Back in their countries of origin they have pioneered the consciousness of responsibility for the poorer nations. Through their presence on the spot, they are in a privileged condition to advance programs of self-help at the grass-roots level and in the remote areas away from the cities.<sup>110</sup> They typically promote the small projects which are judged to create the greatest benefit. „As a rule one can hold that millions of small projects are better than great projects costing millions.“<sup>111</sup>

Finally, besides capital, education and training, also cultural and moral attitudes are of decisive importance for the development of a nation. „A change of attitude towards work, property, providence, punctuality and reliability etc. is required.“<sup>112</sup> Also here the churches can and have made essential contributions. Faith in Jesus Christ can change people and penetrate them with new moral habits.

„In fact there is a better understanding today that the mere accumulation of goods and services, even for the benefit of the majority, is not enough for the realization of human happiness ... On the contrary, the experience of recent years shows that unless all the considerable body of resources and potential at man's disposal is guided by a moral understanding and by an orientation towards the true good of the human race, it easily turns against man to oppress him“(SRS 28). Although development has a necessary economic dimension, it is not limited to this; it must be oriented towards the vocation of man seen in his totality, including his cultural, religious and transcendent dimensions.

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<sup>110</sup> According to experience hitherto, the increased influx of finances and technology primarily benefits the capital city of a country. „For most developing countries it can be assumed that the influx from abroad either does not reach the periphery of the receiving country or reaches it in a way that new enclaves are created“(Hans Zwiefelhofer, *Neue Weltwirtschaftsordnung und katholische Soziallehre*. Mainz: Grünewald, 1980, 122).

<sup>111</sup> H.Sautter, l.c. 128.

<sup>112</sup> W. Lachmann, *Leben wir auf Kosten der Dritten Welt?*, l.c. 95.

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