Catholic Social Teaching and Economic Law:
An Unresolved Tension

by Thomas E. Woods, Jr.
Department of History
Suffolk Community College
woodst@sunysuffolk.edu

Presented at the Austrian Scholars Conference 8, March 15-16, 2002
Ludwig von Mises Institute, Auburn, Alabama.

One of the characteristic features of Catholic thought over the centuries has been its emphasis on reason. Man's mind, according to this tradition, is capable of apprehending a world of order that exists outside itself. Man is able to abstract "universals" from the myriad objects and sense data that appear to him and thus bring order to the chaos of mere data above which mere brutes can never ascend.

Throughout the Bible and the Church Fathers, the regularity of natural phenomena is described as a reflection of God's goodness, beauty, and order. For if the Lord "has imposed an order on the magnificent works of his wisdom," that is only because "He is from everlasting to everlasting" (Sir. 42:21). "The world," writes Stanley Jaki, summing up the testimony of the Old Testament, "being the handiwork of a supremely reasonable Person, is endowed with lawfulness and purpose." This lawfulness is evident all around us. "The regular return of seasons, the unfailing course of starts, the music of the spheres, the movement of the forces of nature according to fixed ordinances, are all the results of the One who alone can be trusted unconditionally." The same holds for

Jeremiah's citation of the faithful recurrence of harvests as a demonstration of God's goodness, or the parallel he draws "between Yahweh's unfailing love and the eternal ordinances by which Yahweh set the course of stars and the tides of the sea."[1]

Likewise, God and the Bible are teleological: things have purposes. It is not for man to define the purposes of marriage and sexuality according to his arbitrary will, for instance; God punishes men who substitute their whims for the order and purpose he has built into his creation. Catholics were in general not nominalists: they did not consider God's will to be absolutely unfathomable or his moral laws ultimately arbitrary. Actions were not good simply because God had said so; God had said so because they were good. Thus from the physical world to the world of moral precept, God was nothing if not rational and orderly.

Along similar lines, in the Catholic scheme of things a man's salvation was not, as Luther and Calvin would have it, the arbitrary result of divine caprice, but was instead based on a clear principle accessible to reason: whether the person had died in a state of grace, i.e., with no mortal sins on his conscience unremitted in sacramental confession. Again, God's will, while in a certain sense of course inscrutable, was never presented by the Catholic Church as utterly arbitrary and absolutely inaccessible to human reason. Shrouded in mystery, he was nevertheless a God of order.

During the Enlightenment, thinkers impressed by the elegant regularity of phenomena and the beautiful order that Isaac Newton had described in the physical world looked in the social world for similar law-like relationships. Although the rise of what

[1] Stanley L. Jaki, *Science and Creation: From Eternal Cycles to an Oscillating Universe* (Edinburgh: Scottish Academic Press, 1986), p. 150. "The coupling of the reasonability of the Creator and the constancy of nature is worth noting because it is there that lie the beginnings of the idea of the autonomy of nature and of its laws." Ibid. Cf. Ps. 8:4, 19:3-7, 104:9, 19, 148:3, 6; Jer. 5:24, 31:35.

might be called economic thought had long preceded the Enlightenment, the attempt to systematize observations of economic activity into a coherent discipline reflected the intellectual life of the eighteenth and nineteenth centuries at its best. What they found was that prosperity was maximized when the free interaction of individuals was hampered as little as possible, and that ill-considered efforts to improve the economic well-being of certain groups were bound to have deleterious consequences, often exactly contrary to the stated wishes of their proponents. As Ludwig von Mises points out, many of these thinkers found the hand of divine providence in the beautiful order and harmony created by the free market and the division of labor – a supplement, I might add, to the order in the physical realm that St. Paul and Catholic theology as a whole had always pointed to as evidence of God's existence and goodness. Enlightenment thinkers viewed the regularity of natural phenomena as "an emanation of the decrees of Providence," and when these same thinkers discovered a like regularity in human action and the economic sphere, they "were prepared to interpret it likewise as evidence of the paternal care of the Creator of the universe." "Observe the functioning of the market system," some classical liberals put it, "and you will discover in it the finger of God."[2]

The nineteenth-century classical liberal (and Catholic) economist and writer Frederic Bastiat described the consequences of this insight in his posthumously published *Economic Harmonies*:

> For if there are general laws that act independently of written laws, and whose action needs merely to be regularized by the latter, we must study these *general laws*; they can be the object of scientific investigation, and therefore there is such a thing as the science of political economy. If, on the contrary, society is a human invention, if men are only inert matter to which a great genius, as Rousseau says,

[2]Ludwig von Mises, *Human Action: A Treatise on Economics* (New Haven: Yale University Press, 1949), p. 240.

> must impart feeling and will, movement and life, then there is no such science as political economy: there is only an indefinite number of possible and contingent arrangements, and the fate of nations depends on *the founding father* to whom chance has entrusted their destiny.[3]

The primary difficulty with much of what has fallen under the heading of Catholic social teaching since Pope Leo XIII's *Rerum Novarum* (1891) is that it assumes without argument that the force of human will suffices to resolve economic questions, and that reason and the conclusions of economic law can be safely neglected, even scorned.[4] In fact, as with the German Historical School that Ludwig von Mises opposed, proponents of Catholic social teaching effectively deny the very existence of economic law. Their position therefore neglects altogether the role that reason must play in assessing the consequences of seemingly "progressive" economic policies, as well as in apprehending the order and harmony that can exist within complex (in this case market) phenomena. This attitude runs directly counter to the entire Catholic intellectual tradition, according to which man is to conform his actions to reality, rather than embarking on the hopeless and foolish task of forcing the world to conform to him and to his desires. This corpus of thought wishes to force reality into outcomes that cannot be realized by will alone.

Thus, for example, that every man should earn a "family wage" that allows his family to live in reasonable comfort is a desirable social goal. The suggestion that such an outcome can be brought into existence by decree, however, that man's will can establish such a state of affairs by his *ipse dixit* alone, and that no recourse to any so-called economic law can be of any help in ascertaining the probable outcome of such

[3] Frederic Bastiat, *Economic Harmonies*, ed. George B. de Huszar (Irvington-on-Hudson, NY: Foundation for Economic Education, 1997). Emphasis in original. I owe this reference to Jeffrey Herbener.

measures, is no more intellectually defensible than the suggestion that man's desire to fly renders superfluous any need to take into account the law of gravity.

In sum, much of the economic counsel set forth as Catholic social teaching over the past century suffers from logical flaws and is factually mistaken in a number of its assertions. Such a position, whether or not its proponents realize it, represents the triumph of will over intellect, of the substitution of arbitrary will and desire for a rational assessment of laws of social interaction and the inevitable consequences of violent interference in that interaction. Such a posture, in addition to the damage it does to the existing stock of wealth and to social comity itself, is thoroughly uncharacteristic of the Catholic Church, an institution that has always emphasized the mind's ability to *perceive* (and to rejoice in) the orderliness of God's creation and to *conform itself* to it. Truth, say Catholic catechisms, consists of *the conformity of mind to reality.* Catholic "social teaching," on the other hand, too frequently demands that man allow mere desire and sentiment to form his judgment in economic matters, rather than assessing the consequences of economic measures with the aid of economic law, and rather than looking in the economic realm for the order and regularity to which the Church points in so many other areas as reflections of the orderliness of God himself.

*　　*　　*　　*　　*

One of the most frustrating aspects of Catholic social thought since *Rerum Novarum* is that there was nothing inevitable about the direction it ultimately took.

---

[4]This is not to suggest that the Church is adopting a positively *irrationalist* position. It is logically possible to hold that reason ought to be employed wherever possible but that in economics scientific

Among the great advances in the study of the history of economic thought that took place in the twentieth century was the rediscovery of the fairly voluminous economic insights of the late Scholastic theologians, particularly in Spain. Several scholars deserve special mention in this regard, including Raymond de Roover, Joseph Schumpeter, Marjorie Grice-Hutchinson, Alejandro Chafuen, and Murray N. Rothbard.[5] Much of what these sixteenth-century Catholic thinkers taught in the economic realm revealed a considerable understanding of and appreciation for the functioning of the market, including the role of entrepreneurship, the nature of exchange, and the justice of prices and wages determined by the free interplay of supply and demand. Well before Adam Smith, therefore, a whole host of thinkers not only anticipated many of his insights regarding the free market but even avoided some of the errors (the labor theory of value chief among them) that would arise in Smith's work.

To be sure, the Spanish Scholastics did not possess a self-conscious or explicitly elaborated conception of the market as an intrinsically harmonious and self-regulating system analogous to the self-regulating physical universe of Isaac Newton, and it would be anachronistic to expect such a conception.[6] They were, moreover, interested more in

---

analysis is simply not applicable. I owe this point to David Gordon.

[5]Raymond de Roover, "The Concept of the Just Price: Theory and Economic Policy," *Journal of Economic History* 18 (1958): 418-34; *Business, Banking, and Economic Thought in Late Medieval and Early Modern Europe: Selected Studies of Raymond de Roover,* ed. Julius Kirshner (Chicago: University of Chicago Press, 1974), esp. pp. 306-45; Alejandro A. Chafuen, *Christians for Freedom: Late Scholastic Economics* (San Francisco: Ignatius Press, 1986); Marjorie Grice-Hutchinson, *The School of Salamanca: Readings in Spanish Monetary Theory, 1544-1605* (Oxford: Clarendon Press, 1952); idem, *Early Economic Thought in Spain, 1177-1740* (London: George Allen & Unwin, 1978); Joseph Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954). Rothbard's most in-depth treatment of the late Scholastics appears in Murray N. Rothbard, *An Austrian Perspective on the History of Economic Thought*, vol. 1, *Economics Before Adam Smith* (Hants, England: Edward Elgar, 1995), pp. 99-133.

[6]I do not mean to suggest that Newton's mechanical model of the universe is completely analogous to the order that we observe in the marketplace. Indeed a Newtonian conception of the market would resemble not so much the economy as it really exists but rather the fictional "evenly rotating economy" that Mises used as a heuristic device, and which assumes entrepreneurship away. The Newtonian model might also suggest that the economy actually reaches an equilibrium state, rather than

the moral dimension of economics than in a descriptive elaboration of how various economic mechanisms functioned. Still, a recognition of the binding nature of economic law is obviously taken for granted in a great many of their contentions. The Scholastics derived certain economic relationships, such as the quantity theory of money, in the process of reaching moral conclusions, and thereby demonstrated their fundamental if at times inchoate recognition that the economy functioned in certain definite ways and that it would be foolish for human whim to attempt to defy them. Thus consider this summary of the Scholastic critique of price regulation:

> Regulation of prices by the authorities or by guilds sooner or later produces incorrect prices and a distorted market. Because the prices of goods are internally related, it serves no purpose to regulate the prices of the end-products only. This thesis is illustrated by means of an example. If the authorities wish to regulate the prices of bread and shoes, the prices of wheat and leather must also be kept under control. If not, then distorted growth takes place in the production line or between this and the distribution line.[7]

Likewise, Juan de Mariana (1536-1624) warned of the consequences of state interference with market phenomena:

---

simply possessing a tendency toward an equilibrium that it approaches but never achieves. Nevertheless, a great many Enlightenment social scientists, explicitly or otherwise, drew comparisons between their work in studying society and Newton's work on the physical universe, noting that in both cases human investigation was uncovering fixed laws that human caprice could not contravene. Moreover, both cases involve self-regulating systems that operate without the need for exogenous direction. This is why I make the comparison.

[7]Louis Baeck, "Spanish Economic Thought: The School of Salamanca and the *Arbitristas*," *History of Political Economy* 20 (Autumn 1988): 385. Baeck concludes: "By emphasizing the economic mechanisms that influence the determination of value and the formation of prices, the schoolmen of Salamanca finally put the Franciscan nominalism of the late Middle Ages to rest." Such statements constitute a welcome corrective to the perhaps exaggerated claim of de Roover that "[t]o compare the economic system to a clockwork or to the human body and to study how it functions or operates is an idea which did not occur to the medieval Schoolmen and which was entirely alien to their way of thinking…. The question asked was never: how does it work or why does it change? The scholastics were preoccupied with another set of problems: what is just or unjust, licit or illicit?" Raymond de Roover, *San Bernardino of Siena and Sant'Antonio of Florence: The Two Great Economic Thinkers of the Middle Ages* (Boston: Baker Library, 1967), pp. 7-8. Again, in the process of determining where justice lay, the Scholastics certainly did, if only incidentally, describe the mechanics of economic relationships.

> Only a fool would try to separate these values in such a way that the legal price should differ from the natural. Foolish, nay, wicked the ruler who orders that a thing the common people value, let us say, at five should be sold for ten. Men are guided in this matter by common estimation founded on considerations of the quality of things, and their abundance or scarcity. It would be vain for a Prince to seek to undermine these principles of commerce. 'Tis best to leave them intact instead of assailing them by force to the public detriment.[8]

In addition to the rediscovery of the importance of the late Scholastics in general, another important recent accomplishment in the history of economic thought was Raymond de Roover's crucial revision of our understanding of what the Scholastics meant by the "just price." For a long time, it was assumed that the so-called just price was a price distinct from the price reached on the free market, and reflected either the cost of production or the good's alleged intrinsic value. In fact, the just price was the market price, the price established by the "common estimation" of buyers and sellers.[9] In 1554, Luís Saravia de la Calle Veroñese summarized this position by noting that the just price "arises from the abundance or scarcity of goods, merchants, and money, as has been said, and not from costs, labor and risk. If we had to consider labor and risk in order to assess the just price, no merchant would ever suffer loss, nor would abundance or scarcity of goods and money enter into the question."[10]

A proper understanding of the Scholastic theory of the just price is essential in order to appreciate the Scholastic theory of wages, which was "perfectly consistent with their price theory."[11] That is, the just wage was that which was reached by means of the common estimation of the market. Luis de Molina taught that the owner was "only

[8]Quoted in Rothbard, *Economics Before Adam Smith*, p. 120.

[9]The one proviso in this position was that "in cases of collusion or emergency, the public authorities retained the right to interfere and to impose a fair price." De Roover, "The Concept of the Just Price: Theory and Economic Policy," p. 421.

[10]Quoted in Rothbard, *Economics Before Adam Smith*, p. 110.

[11]Chafuen, *Christians for Freedom*, p. 124.

obliged to pay [the laborer] the just wage for his services considering all the attendant circumstances, not what is sufficient for his sustenance and much less for the maintenance of his children and family."[12] Domingo de Soto stated the matter even more concisely, concluding that "if they freely accepted this salary for their job, it must be just." He held that "no injury is done to those who gave their consent," and suggested to laborers: "[I]f you do not want to serve for that salary, leave!"[13] The same view of wage determination was also held by two earlier figures, whom Raymond de Roover describes as the two great economic thinkers of the Middle Ages: San Bernardino of Siena and Sant'Antonio of Florence.[14] Chafuen points out that while this teaching is easily misunderstood as a case of callous disregard for the well being of workers, it was no such thing:

> Their condemnation of monopolies, frauds, force and high taxes are all directed toward the protection and benefit of the working people. Nonetheless, they never proposed the determination of a minimum wage sufficient to maintain the laborer and his family. In the belief that fixing a wage above the common estimation level would only cause unemployment, they recommended other means.
>
> Reason allows us to distinguish between goals and means. One of the goals of the Schoolmen's economic policy recommendations, as of any other school of thought, is the betterment of the worker's condition. Nonetheless, they understood that tampering with the market would be inconsistent with their goals. These reasons, and not a lack of charity, were the basis of their proposals. Those who criticize Late Scholastic wage theory for a so-called "lack of compassion" demonstrate their lack of understanding of the market.[15]

This defense of the fundamental justice of the free market, although not altogether abandoned (the popes certainly do not advocate socialism), was nevertheless eclipsed to a significant degree in modern papal pronouncements, beginning most obviously with

[12]Ibid., p. 125.
[13]Ibid., pp. 126, 127.
[14]De Roover, *San Bernardino of Siena and Sant'Antonio of Florence*, pp. 23-27.

Rerum Novarum (1891), clearly the seminal Church document on the question of capital and labor. In the face of labor agitation and unrest throughout the West, Pope Leo XIII decided to issue a pronouncement on what was then referred to as the social question. The encyclical discusses at some length the justice and necessity of private property, and for that reason utterly rejects socialism as a legitimate economic system. The Pope was not especially sympathetic to the use of the strike, and advocated that government intervene in order to settle such disputes between employer and employed in order that the "grave inconvenience" of such work stoppages be vitiated.

To be sure, the popes have consistently rejected the Marxist position whereby labor and capital are by necessity locked in unavoidable conflict and struggle. They contend that no such inherent conflict exists in society, and that the capital-labor relationship need not be an antagonistic one, and ought naturally to be mutually agreeable and harmonious.[16] But having said that, they go on in their various critiques of the market to suggest, even if usually only implicitly, that all is disorder and chaos, and that intervention by public authority is indispensable for obtaining justice in the economic realm. Recall the consensus among the late Scholastics that just wages were established in the same way as just prices, namely by the common estimation of the market and the free consent of individuals. *Rerum Novarum*, on the other hand, flatly declares it a

[15]Chafuen, *Christians for Freedom*, pp. 130-31.

[16]"The great mistake made in regard to the matter now under consideration is to take up with the notion that class is naturally hostile to class, and that the wealthy and the working men are intended by nature to live in mutual conflict. So irrational and so false is this view that the direct contrary is the truth. Just as the symmetry of the human frame is the result of the suitable arrangement of the different parts of the body, so in a State is it ordained by nature that these two classes should dwell in harmony and agreement, so as to maintain the balance of the body politic. Each needs the other: capital cannot do without labor, nor labor without capital. Mutual agreement results in the beauty of good order, while perpetual conflict necessarily produces confusion and savage barbarity." Leo XIII, *Rerum Novarum* 19. The paragraph numbers of the papal encyclicals referred to in this paper correspond to the ones used at the Vatican website, http://www.vatican.va.

falsehood to conceive of wages as "regulated by free consent, and [that] therefore the employer, when he pays what was agreed upon, has done his part and seemingly is not called upon to do anything beyond."[17] To be sure, workers and employers may enter into agreements pertaining to wages, but

> there underlies a dictate of natural justice more imperious and ancient than any bargain between man and man, namely, that wages ought not to be insufficient to support a frugal and well-behaved wage-earner. If through necessity or fear of a worse evil the workman accept harder conditions because an employer or contractor will afford him no better, he is made the victim of force and injustice.[18]

Leo XIII later speaks of the importance of wages "sufficient to enable [the laborer] comfortably to support himself, his wife, and his children."[19]

Leo XIII himself cautioned that *Rerum Novarum* not be considered an endorsement of this or that particular program; he thought Catholics ought to be free, taking Catholic principles for granted, to discuss the best way to bring Church teaching to bear on current problems. "If I were to pronounce on any single matter of a prevailing economic problem," the Pope later wrote, "I should be interfering with the freedom of men to work out their own affairs. Certain cases must be solved in the domain of facts, case by case as they occur…. [M]en must realize in deeds those things, the principles of

[17]Leo XIII, *Rerum Novarum* 43.

[18]Leo XIII, *Rerum Novarum* 45.

[19]Leo XIII, *Rerum Novarum* 46. At the same time, the Pope, defending the right to private property and the benefits that derive from private ownership, warns that these benefits "can be reckoned on only provided that a man's means be not drained and exhausted by excessive taxation," and that the state "be unjust and cruel if under the name of taxation it were to deprive the private owner of more than is fair." *Rerum Novarum* 67. See also *Rerum Novarum* 14, in which the Pope lays down still further limits on the authority of the state.

which have been placed beyond dispute…. [T]hese things one must leave to the solution of time and experience."[20]

Among the principal themes that Leo XIII introduces into Catholic discourse with *Rerum Novarum* is the idea of a "third way" between socialism and pure *laissez-faire*. The operation of the market, Leo suggests, had in some cases led to intolerable outcomes that public authority ought to rectify. Moreover, *Rerum Novarum* enshrines the critical and fateful idea that the wage rates established by market processes could be held up to moral critique by outside observers on the basis of their adequacy in meeting workers' needs. As will become characteristic of the documents that comprise Catholic social thought, the question of the productivity of labor as an unavoidable determinant of wage rates is not raised.

Pope Pius XI's *Quadragesimo Anno* (1931) is another critical document within the corpus of Catholic social thought. An encyclical commemorating the fortieth anniversary of *Rerum Novarum*, *Quadragesimo* was written during the Great Depression, a fact that may account for the more polemical and hostile tone it adopts towards businessmen and the market. Toward the beginning of the document, Pius laments the allegedly appalling conditions that afflicted the vast majority of workers. He goes on to praise the passage of laws on behalf of worker safety and well being in the wake of Leo's encyclical. "These laws," Pius observes, "undertake the protection of life, health, strength, family, homes, workshops, wages and labor hazards, in fine, everything which pertains to the condition of wage workers." Having helped to inspire such measures, Pius

[20]Quoted in Katherine Burton, *Leo the Thirteenth: The First Modern Pope* (New York: David McKay Co., 1962), p. 171.

concludes, it was *Rerum Novarum* "to which great credit must be given for whatever improvement has been achieved in the workers' condition."[21]

To the casual observer this statement is innocuous enough. But there is a hidden assumption here, which is central to the rest of the document as well as to nearly all of the late nineteenth and twentieth-century papal criticism of the market order, and upon which practically the entire edifice of recent Catholic social thought has been built. Thus if this assumption, which is rarely stated explicitly and never to this writer's knowledge given any logical proof in an official Church document, should turn out to be erroneous, the entire structure on which it rests must be systematically reconsidered.

That assumption is that the wage rates and the working conditions that come into existence through the unhampered market process do not necessarily reflect fundamental economic realities and may be objectively unjust. These wages and conditions, the assumption continues, may be improved upon through wise state intervention. Closely related to this fundamental assumption is the implicit claim that such intervention can be purely benign, and Pareto optimal from the workers' point of view—that is, the process of making some better off will make no one worse off. We must assume that the architects of Catholic social teaching consider the ill effects of such intervention to be either minimal or nonexistent, since that teaching nowhere makes moral provision for workers who will be priced out of the market by the implementation of state-imposed wage increases and improvements in working conditions.[22]

---

[21] Pius XI, *Quadragesimo Anno* 28.

[22] Inasmuch as regulation of working conditions has the same economic effect as a forced wage increase in that it makes hiring labor (rather than substituting inanimate capital) relatively more costly, for the duration of the paper the question of working conditions will be subsumed under the general question of wages.

This assumption regarding wage rate determination may seem so obvious to Leo XIII and Pius XI as not to require proof, but if the Church is going to presume to establish moral principles on the basis of the consequences that follow from this assumption, then *some* demonstration of its truth must be attempted. For if this assumption is wrong, then the counsel that the popes presume to offer in economic matters may in fact have the opposite outcome from that intended, and the accusations of injustice and immorality that they have leveled against certain employers and the economic system as a whole may turn out to be unjustified.

Consider *Quadragesimo Anno*'s renewal of *Rerum Novarum*'s call for a "living wage": "In the first place, the worker must be paid a wage sufficient to support him and his family." This demand is followed later in the same paragraph by a qualifying statement: "But if this cannot always be done under existing circumstances, social justice demands that changes be introduced as soon as possible whereby such a wage will be assured to every adult workingman."[23] Thus Pius XI concedes that paying a worker a so-called family wage "cannot always be done under existing circumstances," although he does not elaborate on this point. Why might it not be able to be done? Because, perhaps, worker productivity is not sufficiently great in all fields to command such high wages? No answer is provided. He then demands that "changes be introduced as soon as possible" to make such wages feasible, but he again provides no indication of what kinds of changes he has in mind.

"In determining the amount of the wage," the Pope goes on, "the condition of a business and of the one carrying it on must also be taken into account; for it would be unjust to demand excessive wages which a business cannot stand without its ruin and consequent calamity to the workers." Pius XI does recognize, then, that wage rates are obviously subject to some upper bound beyond which they cannot go. He concludes: "Hence it is contrary to social justice when, for the sake of personal gain and without regard for the common good, wages and salaries are excessively lowered or raised; and this same social justice demands that wages and salaries be so managed, through agreement of plans and wills, in so far as can be done, as to offer to the greatest possible number the opportunity of getting work and obtaining suitable means of livelihood." Such statements help to underscore why the late Scholastics favored leaving wage determination to the "common estimation" of the market, since any other method is inherently arbitrary and leads to hopeless complications. Thus Pius realizes that there is a limit to the wage level the market can bear, but he is able to offer nothing better than a vague appeal to "agreement of plans and wills" in order to determine what that limit was. He rejects out of hand the fundamental posture of liberal economics according to which the market left to itself "would have a principle of self direction which governs it much more perfectly than would the intervention of any created intellect."[24] He thus assumes (without any demonstration or proof) that the unhampered market is *not* the way to provide employment "to the greatest possible number," but provides us with no serious alternative method for doing so.

In more recent years the popes have begun to demand, in addition to a "living wage," various additional benefits for workers. Thus Pope John Paul II declares in *Laborem Exercens*: "The expenses involved in health care, especially in the case of accidents at work, demand that medical assistance should be easily available for workers,

---

[23]Pius XI, *Quadragesimo Anno* 71.
[24]Pius XI, *Quadragesimo Anno* 88.

and that as far as possible it should be cheap or even free of charge. Another sector regarding benefits is the sector associated with the *right to rest*. In the first place this involves a regular weekly rest comprising at least Sunday, and also a longer period of rest, namely the holiday or vacation taken once a year or possibly in several shorter periods during the year. A third sector concerns the right to a pension and to insurance for old age and in case of accidents at work."[25]

We shall leave aside the philosophical question of whether it makes sense to speak of a pension as a *human right* fundamental to man's nature when its enjoyment is not possible at all times and in all places (how would two men on a desert island enforce their "right to a pension" upon one another?).[26] Nowhere in this analysis is there any acknowledgment that making medical assistance "cheap or even free of charge" only makes it more costly to hire workers in the first place, and thus guarantees higher unemployment. It is not even that *Laborem Exercens* presents us with a trade-off between "free" health care on the one hand and increased unemployment and impoverishment on the other. *No such difficulty is raised or even acknowledged*. Employee compensation is simply assumed to be so arbitrary that we can actually make certain compensation packages morally obligatory without even taking into account any need to make provision for inevitable drawbacks. Apparently, there are none with which moral analysis need concern itself.

The clear implication of all of this is that will, desire, and good intention suffice to bring about high wages, vacation time, free health care, and the like. Indeed much of Catholic social thought suggests that the problem of economics and wealth is to a

[25] John Paul II, *Laborem Exercens* 19.6.

significant degree a matter of human manipulation and contrivance rather than a rational and sober reckoning with the constraints and scarcities with which man is naturally confronted. Occasionally a qualifying statement appears, as in Pope John XXIII's 1963 encyclical *Pacem in Terris*, which declares: "The amount a worker receives must be sufficient, *in proportion to available funds*, to allow him and his family a standard of living consistent with human dignity."[27] No guidance or elaboration is provided with regard to what constitutes "available funds." The very term "available funds" again suggests a misplaced emphasis on employer discretion rather than the productivity of labor as the limiting factor on wages. In one of the most startling twentieth-century papal statements on economics, Pope Pius XII even goes so far as to declare, in his 1941 Pentecost message, "Nature imposes work upon man as a duty, and man has the corresponding natural right *to demand that the work he does shall provide him with the means of livelihood for himself and his children*."[28]

But the Catholic especially must appreciate that the condition of superabundance that characterized the Garden of Eden no longer exists. Ours is a world of scarcity in which the goods of human existence are acquired through toil. The fact of scarcity cannot be blithely wished away through legislative action or moral polemic. "In the sweat of thy face shalt thou eat bread" (Gen. 3:19).

The possibility that the determination of wage rates could involve something more than mere employer whim is scarcely even raised, let alone cogently addressed, within the corpus of Catholic social thought, and the concept of economic law, when it is

---

[26]Cf. Frank van Dun, "Human Dignity: Reason or Desire? Natural Rights versus Human Rights," *Journal of Libertarian Studies* 15 (Fall 2001): 10.

[27]John XXIII, *Pacem in Terris* 20. Emphasis added.

mentioned at all, is generally ridiculed and dismissed as a rationalization of greed.[29] This impression only increases when one considers the position of Msgr. John A. Ryan, perhaps the best-known American Catholic writer on economic issues in the early twentieth century. Ryan, a professor of political science and moral theology who taught at Minnesota's St. Paul's Seminary and the Catholic University of America, founded and edited the *Catholic Charities Review* and directed the Department of Social Action of the National Catholic Welfare Conference. In his famous book *A Living Wage* (1906), Ryan points out that according to the logic of the classical economists, wages freely bargained for would *ipso facto* be just wages. Wondering whence they derived such a theory, he goes on to discuss the teaching of Adam Smith, failing to make any mention of the late Scholastics, who of course held precisely the view that Ryan holds up to ridicule and contempt.[30]

Not surprisingly, Ryan rejects the idea that a wage decided upon through free bargaining between laborer and employer is inherently just (a position that he was probably unaware had been held by so many venerable sixteenth-century Catholic thinkers) and argues instead that it is morally obligatory upon employers to pay wages that would allow workers and their families to live in reasonable comfort. Ryan, too, inserts an occasional qualifying clause that he does nothing to explain or clarify. "When the employer cannot pay a Living Wage," he concedes, "he is for the time being freed from actual obligation, as no one is morally bound to do the impossible."[31] Thus Ryan himself admits the existence of limitations on what employers can be expected to pay, but

---

[28]Pius XII, Pentecost broadcast message, June 1, 1941, AAS 33 (1941) 201; cited in John XXIII, *Pacem in Terris* 20. Emphasis added.

[29]Cf. Pius XI, *Quadragesimo Anno* 4 and 54.

having already dismissed the suggestion that on the market wages tend to approximate the worker's discounted marginal value product (DMVP)—that is, the market value of the goods whose production the employment of a particular laborer makes possible, discounted by the going rate of interest—he provides no rational or objective substitute in its place for wage determination other than an "ability to pay" principle that he himself admits is vague and unhelpful.[32] Adding to the confusion is Ryan's later admission: "If, however, it be maintained that there is no obligation to pay the laborer *more* than the value of his product because there is no possibility of doing so, no objection can be offered."[33] But if this is true, then how can state authorities be sure, when imposing "living wage" legislation, that they are not forcing men out of work by decreeing a wage beyond what their product is worth?

Ryan rejects the idea that wage determination has anything to do with worker productivity, which he argues is impossible to measure: "Do the skilled workers in an automobile factory produce more than the common laborers who pave streets? There is no third term by which the two products can as such be compared."[34] But of course there is a third term: *money*. The institutions of money and private property are what make economic calculation possible.[35] It is because we can reckon all goods and services in the economy in terms of a common unit that entrepreneurs can calculate profit and loss, and in the first place can decide among the limitless production possibilities (that is, what kinds of technology to use, how capital- or labor-intensive to be, where to locate one's

---

[30]John A. Ryan, *A Living Wage: Its Ethical and Economic Aspects* (New York: Macmillan, 1906), pp. 13-15.

[31]Ibid., p. 249.

[32]Ibid., p. 250.

[33]Ibid., p. 244. Emphasis in original.

[34]Ibid., p. 245; see also pp. 244-46, 261.

physical plant, what combination of factors to employ, and so on) which is the most efficient and least wasteful in terms of foregone opportunities to which the inputs he uses might have been put. Ryan seems completely unaware of this aspect of money prices and wages.

Moreover, what the entrepreneur is interested in is not so much physical productivity per se as the DMVP of the labor he employs. An entrepreneur must take into account the value of the increased product he expects to accrue to his firm from *any factor of production*, and must make his decisions to purchase or to abstain from purchasing capital equipment, an expanded plant, and the like, based on the extent of this expected gain. But even if it were true that productivity could not be measured, it is nevertheless a *non sequitur* to suggest that the just wage must therefore reflect the needs of the worker and his family. A contemporary reviewer of *A Living Wage* attempted to make this point to Ryan: “As an individual or as head of a family, the laborer produces the same amount of work; how then could the employer as such be obliged in strict justice to take into account a condition which is of no advantage to him?”[36]

It can come as little surprise that Ryan dismisses the idea that economic law acts as a constraint on the “lasting modification in the rates of wages by human action.”[37] “A strong Labor Union,” Ryan declares, “might meet the objection of the employer, that efforts to get more pay must prove futile, since wages are fixed by economic law, with the declaration: ‘Yes, but we will help to make the law.’”[38]

---

[35]The seminal essay is, of course, Ludwig von Mises, *Economic Calculation in the Socialist Commonwealth* (1920; Auburn, AL: Ludwig von Mises Institute, 1990).

[36]George M. Sauvage, review of *A Living Wage*, by John A. Ryan, in *Catholic University Bulletin* 13 (July 1907): 470-75; quotation on 474.

[37]Ryan, *A Living Wage*, p. 7.

[38]Ibid., p. 9.

More hostile still to the idea of economic law is Heinrich Pesch, S.J. (1854-1926), the founder of Solidarism, a kind of corporatism on which *Quadragesimo Anno* is said to have modeled its own approach.[39] (While Pesch died five years before the publication of *Quadragesimo,* his intellectual circle was frequently consulted during its drafting.)[40] According to Pesch, advocates of the idea of economic law assume that man always acts with purely economic motives in mind. This was a common Catholic criticism, and one that persists: John Paul II, in *Laborem Exercens*, criticizes "economism" as a mode of thought that "directly or indirectly includes a conviction of the primacy and superiority of the material, and directly or indirectly places the spiritual and the personal (man's activity, moral values and such matters) in a position of subordination to material reality."[41] Pesch suggests that economic law would hold only if this assumption of man's exclusively "economic" behavior and outlook were true. Since this assumption is demonstrably false, Pesch believes he has thereby refuted the case for economic law. Pesch even purports to provide an example of how it can actually be a virtue to flout so-called economic law: "If in bad times many 'hands' present themselves for employment, so that the 'exchange value of their labor power' falls below their reproduction value—

[39]Mises himself discusses the work of Pesch and the Solidarists: "It denies—without, however, arguing this more closely or bringing to light ideas not put forward before by the socialists, especially the non-Marxists—that merely acting for one's own property-interests within a legal order guaranteeing liberty and property ensures an interaction of the individual economic actions corresponding to the ends of social cooperation." A similarity with Catholic social teaching in general is apparent: Solidarism denies that a liberal economic order brings about economic harmony—"without, however, arguing this more closely." According to Solidarism, various forms of pressure, whether legal or through the Christian conscience, should be brought to bear in the form of "obligations on the possessors in favour of the poorer people and in favour of the public welfare." Thus Solidarism is "but a single step" from Socialism, says Mises, for "it places above the owner an authority—indifferent whether Law and its creator, the State, or conscience and its counsellor, the Church—which is to see that the owner uses his property correctly." Ludwig von Mises, *Socialism: An Economic and Sociological Analysis*, trans. J. Kahane (Indianapolis, IN: Liberty Fund, 1981), pp. 233-36. Thanks to David Gordon for this reference.

[40]Thomas C. Kohler, "Quadragesimo Anno," in *A Century of Catholic Social Thought: Essays on 'Rerum Novarum' and Nine Other Key Documents*, ed. George Weigel and Robert Royal (Washington, D.C.: Ethics and Public Policy Center, 1991), p. 32.

the subsistence costs of the workers—then the owner of the factory is still empowered to pay a higher wage than the actual exchange value and 'the market price of labor power' indicates. He is not mocking the 'natural law' of liberal economism, and perhaps many will deem his conduct as very rational and noble."[42]

In fact, Pesch's example is not especially enlightening. The question is not whether some employer for some limited time might possess the means to exercise charity. The question is whether wages as a whole can be permanently increased through mere good will, voluntary or otherwise, rather than through the advances in productivity made possible by increased capital investment. During the Great Depression, Herbert Hoover repeatedly urged employers to keep wages high (despite falling prices), and the pressure he brought to bear had its influence. Wages remained high throughout the Great Depression. But this disproved no economic law—to the contrary, it demonstrated the resilience of economic law. Some workers benefited by these higher wages, but surely there is room somewhere in our moral calculus for those who were thereby not able to find a job at all. The unemployment rate averaged a whopping eighteen percent from 1933 to 1940. There were doubtless many who deemed Hoover's conduct "very rational and noble," but there is no record indicating the degree of consolation this afforded workers who were priced out of the market by the federal government's wage policy.[43]

Pesch ridicules the pretensions of economists to scientific exactitude and mathematical precision, and he is correct to do so, but for some reason he concludes from

---

[41]John Paul II, *Laborem Exercens* 13.

[42]Heinrich Pesch, *Liberalism, Socialism and Christian Social Order,* book 1: *The Philosophical Roots of Economic Liberalism,* trans. Rupert J. Ederer (Lewiston, NY: Edwin Mellen Press, 2000), p. 131.

[43]Richard K. Vedder and Lowell E. Gallaway, *Out of Work: Unemployment and Government in Twentieth-Century America* (New York: Holmes & Meier, 1993), pp. 89ff.; Murray N. Rothbard, *America's Great Depression,* 4th ed. (New York: Richardson & Snyder, 1983), pp. 187ff.

this that any kind of universal, unchangeable economic law per se cannot exist.[44] The Austrian school of economics, on the other hand, maintains that laws of economics, of a qualitative rather than a quantitative nature, can be derived deductively through praxeology, the general theory of human action. Why it should be impossible for human reason to establish such qualitative economic laws, even if the mathematical exactitude of quantitative laws must elude the social sciences, Pesch leaves unexplained. Indeed Pesch makes no serious attempt to reckon with the methodological work of such economists as J.B. Say, John Cairnes, and Nassau Senior (the latter two of whom Murray Rothbard described as "proto-praxeologists"),[45] confining himself to triumphantly unmasking the "economic man" canard. Say insisted that the method of economics was one of deduction from first principles, and not analogous to the hard sciences with either their empirical testing or their mathematical precision. Senior built upon this conception, making provision for immaterial satisfactions and thereby expressly avoiding any assumption about man's behavior being driven by exclusively material concerns.[46] Thus Pesch's criticisms do not apply to these thinkers, with whom he ought to have been familiar.

Neither do they apply to Ludwig von Mises, whose methodological work appeared after Pesch was writing. Scholars familiar with Mises' life will recall his sharp critique of the ideological and epistemological positions of the so-called German

[44]Pesch also makes a great deal of Carl Menger's reference to "exact" laws of economics, exploiting a term that Menger indeed used perhaps too casually and without sufficient elaboration. Pesch, *Philosophical Roots*, pp. 142, 259.

[45]Murray N. Rothbard, *Individualism and the Philosophy of the Social Sciences* (Washington, D.C.: Cato, 1978), p. 49.

[46]Ibid., p. 50; on all this, see pp. 45-56.

Historical School.[47] The German Historical School, which included Adolf Wagner, Karl Knies, Gustav Schmoller, and Werner Sombart, in Mises' view effectively denied the possibility of economics as such. Its partisans rejected the idea of universally valid economic law that admitted no exception across nations and epochs. They rejected even such standard relationships as supply and demand.[48] Thus the famous *Methodenstreit*, which has in one form or another continued to the present day, began in the late nineteenth century when Carl Menger, the founder of the Austrian School, argued to the contrary that economic law was something universal and accessible to reason. It can hardly be a surprise, therefore, to learn that Heinrich Pesch (as well as other architects of Catholic social teaching) was himself sympathetic to the German Historical School. Doubtless the proponents of such a position thought they were thereby striking a blow for traditional Catholicism at the expense of liberalism and the Enlightenment, but the result of this line of thought was a decidedly un-Catholic denigration of the powers of reason.[49]

Mises proved that it was quite possible to insist that economic laws did exist and did place constraints on what was possible in the economic sphere without also endorsing any nonsense about mathematical precision or purely "economic" motives exhausting

[47]Ludwig von Mises, *The Historical Setting of the Austrian School of Economics* (1969; repr., Auburn, AL: Ludwig von Mises Institute, 1984); see also David Gordon, *The Philosophical Origins of Austrian Economics* (Auburn, AL: Ludwig von Mises Institute, 1993).

[48]Gordon, *Philosophical Origins*, p. 8.

[49]William R. Luckey, "The Intellectual Origins of Modern Catholic Social Teaching on Economics: An Extension of a Theme of Jesús Huerta de Soto," paper presented at the Austrian Scholars Conference, Auburn University, March 23-25, 2000; see also Pesch, *Philosophical Roots*, ch. 13, in which Pesch reveals his sympathy toward the German Historical School. At the same time, Pesch does acknowledge the extremism of the Historical School as well as the contributions of the Austrians: "That the representatives of the Austrian School by and large rendered some not insignificant services to economic research, even those who do not share their scientific position will have to acknowledge. The incisive investigation into value and interest theory, the opposition to a one-sided empiricism and exclusive historicism, the introduction of abstraction which no science can do without: those are the contributions of the Austrian School and its representatives—Karl Menger, Eugen v. Böhm-Bawerk, Emil Sax, among others, who must not be overlooked despite all other shortcomings." Pesch, *Philosophical Roots*, pp. 260-61.

man's reasons for acting. Mises pointed out what should have been obvious: namely, that "this doctrine of [emphasizing only] the 'economic' side of human action utterly misrepresents the teachings of the classical economists."[50] Economics, he wrote, deals with "the actions of real men. Its theorems refer neither to ideal nor to perfect men, neither to the phantom of a fabulous economic man (homo oeconomicus) nor to the statistical notion of an average man (homme moyen). Man with all his weaknesses and limitations, every man as he lives and acts, is the subject matter of catallactics. Every human action is a theme of praxeology."[51] At no point does praxeology assume that man always chooses with purely economic self-interest in mind; nor does it have anything to say about what goals man should choose. It is concerned simply with the logic of choice itself and the implications that follow from it.

And useful implications do follow from it. Mises proposed as his "action axiom" the fact that man acts purposefully – a fact Mises considered irrefutable, since the attempt to deny it would itself involve purposeful action. It also happens to be a fact supported by Thomistic philosophy. St. Thomas observed in his *Summa Contra Gentiles* that "in acting every agent intends an end" and that "every agent acts for a good." Indifference between alternatives, Aquinas held, does not give rise to action: "Now, he who looks

---

[50]Mises, *Human Action*, p. 63.

[51]Ibid., pp. 646-47. Elsewhere, Mises observes that the general theory of choice and preference that informed his work and that of any complete and mature economics involved "much more than merely a theory of the 'economic side' of human endeavors and of man's striving for commodities and an improvement in his material well-being. It is the science of every kind of human action…. In making his choice man chooses not only between various material things and services. All human values are offered for option. All ends and all means, both material and ideal issues, the sublime and the base, the noble and the ignoble, are ranged in a single row and subjected to a decision which picks out one thing and sets aside another. Nothing that men aim at or want to avoid remains outside of this arrangement into a unique scale of gradation and preference." Ibid., p. 3. Likewise, Rothbard explains that "the truths of economic theory involve the formal relations between ends and means, and not their specific contents. A man's ends may be 'egoistic' or 'altruistic,' 'refined' or 'vulgar.' They may emphasize the enjoyment of 'material goods' and comforts, or they may stress the ascetic life. Economics is not concerned with their content, and its laws

upon a manifold number of things with indifference no more succeeds in doing one of them than another. Hence, from an agent contingently indifferent to alternatives no effect follows, unless he be determined to one effect by something. So, it would be impossible for him to act."[52]

The very act of choice implies the concept of opportunity cost, since in choosing to do one thing man must forego some alternative. This in turn implies that acting man possesses an ordinal ranking of ends, which is revealed in action. This short series of obviously true statements actually amounts to a derivation of the law of diminishing marginal utility—that each additional unit of a good will be desired with less and less intensity. For in line with his ordinal ranking, man will put the first unit of a good toward the satisfaction of his most urgent need. The second unit, therefore, must be desired less insofar as it satisfies a need felt not as urgently as that to which the first unit was directed. Additional units, being used for still less urgent purposes, will be valued correspondingly less.

This information, in turn, implies the direction of the supply and demand curves used in all standard economics. The law of marginal utility states that a person's demand for a particular good decreases with each additional unit; it follows, therefore, that it is only at lower and lower prices that he will be willing to acquire more units of the good. And indeed the more money he spends on the good, the greater the marginal utility of the lesser cash reserves remaining to him, a factor which also contributes to his decreasing desire for additional units of the good. An individual's demand curve for a particular

---

apply regardless of the nature of these ends." Murray N. Rothbard, *Man, Economy and State: A Treatise on Economic Principles* (1962; repr., Auburn, AL: Ludwig von Mises Institute, 1993), p. 63.

[52]St. Thomas Aquinas, *Summa Contra Gentiles*, Book 3, Part I, trans. Vernon J. Bourke (Notre Dame: University of Notre Dame Press, 1975), pp. 34-40; quotations on pp. 34, 37, 38. See also Gabriel J.

good must, therefore, be downward sloping to the right—that is, as the quantity of goods he acquires increases, the price he is willing to pay declines. The curve depicting total demand for this good, as the summation of the demand curves of all individuals, must itself be downward sloping to the right. The vertical or upward sloping supply curve is derived from similarly subjective considerations. A seller of some good is faced with the option of consuming the good himself, selling it at present, and selling it in the future. The more units he sells, the greater the utility of the remaining units in uses other than current sale, and therefore the higher the price he will demand in order to part with additional units.[53] Given this analysis (whose graphical depiction makes the following conclusion simpler to visualize) it necessarily follows that a legally imposed increase in wage rates independent of an increased demand for labor (which in turn is related to the productivity of labor) must lead to unemployment, as an increased number of workers present themselves for fewer available jobs. (None of the above, it should be pointed out, assumes that human choice is based exclusively on so-called "economic" considerations; everything thus far derived follows logically from the implications of human action in general.)

That is an extremely brief praxeological examination of the issue. Let us examine the issue still further. The price of a given type of labor is determined by the interplay of these forces of supply and demand, with the latter being determined by worker productivity. *As with any other factor of production*, faced with the reality of scarcity entrepreneurs must bid for labor, bearing in mind both the marginal product they expect

---

Zanotti, "Misesian Praxeology and Christian Philosophy," *Journal of Markets and Morality* 1 (March 1998).

[53]Thomas C. Taylor, *An Introduction to Austrian Economics* (Auburn, AL: Ludwig von Mises Institute, 1980).

to accrue to them by the employment of additional workers as well as the fact that the competitive bidding for labor on the part of other businesses prevents them from arbitrarily deciding upon whatever wage rate pleases them. Labor is indeed scarce relative to nature-given factors; if this were not so, there would be no unused, submarginal land, for example. If labor were superabundant, or at least abundant in relation to land, all land would be brought into use. The fact that some land and some resources remain untapped reflects the scarcity of labor—that is, labor is too dear to be wasted on extracting resources or using land whose returns would be lower than in some other area, in which scarce labor is more urgently needed.[54]

Through a kind of arbitrage process, the price of any factor of production, labor included, tends to approach its marginal value product – that is, it approaches that amount that accrues to the entrepreneur by the employment of the additional unit of the factor (or, in the case of labor, the additional worker). An employer attempting to reap abnormal profits by offering bids below this amount will find himself having difficulty attracting sufficient sellers at the sum he has determined to pay. Sensing an opportunity for profit, other entrepreneurs will have bid up the price for such factors, whether steel or labor, until it more accurately reflected its marginal value product. Thus the recalcitrant employer will have to bid up his own insufficient price in order to attract the factors he needs away from the more generous offers made by competing enterprises alert to the prospect of profit.

The usual objection to this argument rests on the alleged "inability to wait" on the part of workers: since workers need employment to survive, and since they do not possess a substantial stock of goods on which to subsist while they seek work, they are

[54]Rothbard, *Man, Economy and State*, pp. 390-91; Mises, *Human Action*, pp. 589-95.

forced to accept work at wages that do not adequately reflect their productivity. This argument, however, is long on assertion and short on proof. It is especially implausible given the unprecedented mobility of labor in the modern world, with affordable modes of transportation that past centuries could scarcely have imagined. Employers, on the other hand, possessing enormous investments in fixed plant and other capital, generally lack such mobility, and therefore may themselves be said to possess a certain inability to wait.[55] Moreover, nowhere in this argument is there any acknowledgment that employers must *compete* for scarce labor, in the same way that they compete for any scarce resource, and that workers are faced with a variety of employers, all of whom must compete for their labor services. As George Reisman helpfully points out, *it makes no difference to the wage rate he actually receives* that a worker may theoretically be willing to work for a wage well below what his productivity would justify. A man may be so frustrated with maintaining and finding parking for an automobile in New York City, for instance, that he would theoretically be willing to pay someone to take it off his hands, but this psychological fact has absolutely no bearing on the selling price he is able to command for the car, a price which is determined by supply and demand and not by what in a state of existential despair he might be willing to accept.[56]

The claim that wage rates are set by the arbitrary decision of the employer also fails to explain why, under a regime of government-mandated wage and price controls, employers begin offering fringe benefits in order to elude the wage controls and *attract workers* with more generous overall compensation packages than competing businesses are offering. During World War II, for instance, health care benefits started to become a

[55]Cf. Hans F. Sennholz, *The Politics of Unemployment* (Spring Mills, PA: Libertarian Press, 1987), pp. 149-50.

common feature of employment. Is this not a clear case of employers *bidding workers away from competitors* through offers of greater compensation? In addition, the arbitrariness theory would be at a loss to explain why, at a time when unionism was numerically negligible and federal regulation all but nonexistent, real wages in manufacturing climbed an incredible 50 percent in the United States from 1860-1890, and another 37 percent from 1890-1914, or why American workers were so much better off than their much more heavily unionized counterparts in Europe.[57]

It is, therefore, both disappointing and rather surprising that facts such as these, which contradict the suggestion that employers can arbitrarily depress wage rates, appear to have attracted no prolonged attention in papal documents, or even a curiosity about how market mechanisms may have made this kind of progress possible. Instead, the central if sometimes unstated contention of all the major twentieth-century papal statements of the Church's so-called "social teaching" has consistently remained that at least in some areas the market is arbitrary and unfair, and that human intervention can rectify these alleged injustices. More specifically, *Rerum Novarum*, *Quadragesimo Anno*, and other papal documents simply take for granted that wage rates correspond not to marginal productivity but to the more or less arbitrary fiat of employers, and may therefore be subject to moral scrutiny. Leo XIII speaks of the workingmen of his age as having been "surrendered, isolated and helpless, to the hardheartedness of employers and the greed of unchecked competition." The result, he claims, was that "a small number of very rich men have been able to lay upon the teeming masses of the laboring poor a yoke

---

[56]George Reisman, *Capitalism* (Ottawa, IL: Jameson Books, 1996), pp. 614-15.

[57]George Brown Tindall and David Emory Shi, *America: A Narrative History*, vol. II, brief 5th ed. (New York: W.W. Norton, 2000), p. 692.

little better than that of slavery itself."[58] Pius XI sets forth this thesis in *Quadragesimo Anno*: "Property, that is, 'capital,' has undoubtedly long been able to appropriate too much to itself. Whatever was produced, whatever returns accrued, capital claimed for itself, hardly leaving to the worker enough to restore and renew his strength."[59] Likewise, in *Laborem Exercens* Pope John Paul II suggests that wage rate determination is more or less arbitrary when he remarks that during the early days of industrialization, entrepreneurs, following "the principle of maximum profit," attempted "to establish the lowest possible wages for the work done by the employees."[60]

But this is a statement of fact that is nowhere given any kind of economic or rational defense in any papal document. Little or no acknowledgment is made of the enormous increase in living standards that became evident among the great mass of the population from the Industrial Revolution to the present, or the substantial increase in wage rates that occurred throughout the nineteenth century, the century of *laissez-faire*. This is surely one of the most outstanding features of modern European economic history, yet it features not at all in the social encyclicals. To the contrary, the social encyclicals routinely speak as if the workers' condition had actually stagnated or even deteriorated. Likewise, no appeal to reason is made to explain why those who believe in a marginal productivity theory of wages are in fact mistaken, or why it is factually incorrect to insist that artificially imposed wage increases will lead to unemployment, or why the benefits accruing to those select workers who may enjoy the higher wages must morally outweigh the damage done to other workers who are thereby forced to find work

[58] Leo XIII, *Rerum Novarum* 3.

[59] Pius XI, *Quadragesimo Anno* 54.

[60] John Paul II, *Laborem Exercens* 11. For an overview of John Paul II's thought on such matters, see Samuel Gregg, *Challenging the Modern World: Karol Wojtyla /John Paul II and the Development of*

in lower paying fields or who find no work at all. This latter question certainly does contain moral implications: is it morally acceptable to favor policies that logically guarantee unemployment for some workers? But since the possibility that interventionist wage policies might create unemployment is essentially not raised, this moral question is never addressed—a fairly serious shortcoming in documents that purport to instruct the faithful on the moral dimension of economic policy.

And this, ultimately, is what Catholic social teaching simply refuses to face. Suppose that the logical and rational description of wage rate determination sketched earlier is in fact correct (and indeed nothing in the corpus of the Church's social teaching approaches a refutation of it, or so much as acknowledges the possibility that it might be true). In that case, coercive attempts to enforce a wage rate higher than that reached on the free market *must lead to unemployment*, as employers substitute capital for artificially overpriced labor. There is no reason to doubt the sincerity of the popes who thought they were defending the integrity of the family, the very cell of human society, when they advocated the payment of wages sufficient to provide for a man and his family in reasonable comfort. But if material comfort is the desired outcome, and decent wages the means of achieving it, the question of *how* wages can be increased across the board inevitably arises—a question whose answer requires that we have recourse to the sober reflection of human reason. Simply assuming that because higher wages are desirable they can be brought into effect by legislative decree, and then rendering a moral judgment on employers who do not meet these requirements, does no good to those workers now priced out of the market by the enforced payment of higher wages. The

Catholic Social Teaching (Lanham, MD: Lexington Books, 1999), esp. ch. 5, "Industrial Relations: Protecting the Person."

popes are obviously not incorrect to identify the well being of the family as an important and desirable end, but what are we to say about policies whose inevitable outcome is the unemployment of many heads of households, with countless more relegated to less remunerative or desirable fields than those from which artificial wage increases have shut them out of the market? The moral dimension of all this would be much different if the constraints and scarcities with which the human race must always contend could be eliminated with the wave of a magic wand—or, what is the same thing, a legislative decree. But if the world does not and indeed cannot function in this way, and indeed if economic law precludes such thinking altogether, then what are we to make of purportedly moral teaching that speaks in such terms? Can good intentions really be enough in working toward the goal of increased wages, or are not the findings of reason and economic science indispensable to achieving this aim? These questions are not raised, let alone answered, in the literature of Catholic social thought, and yet they touch the heart of the whole problem of the improvement of the standard of living of the average laborer.

Obviously, the only certain method for raising wage rates permanently and across the board is to increase the productivity of the workers who earn those wages. No one will ever earn *more* than the value product of his labor is worth. Other things being equal, a man whose labor services are worth, say, eight dollars per hour to a prospective employer will never earn twelve dollars an hour from that employer. All the moralizing and labor organization in the world cannot change this fundamental fact.

In the absence of any attempt to address these issues, it is difficult to see how the economic claims of the social encyclicals can actually constitute authoritative Catholic doctrine binding upon the consciences of all the faithful. As this paper has shown, Catholic social teaching is based at its root on a series of unproven assumptions regarding the operation of the market and the determination of wage rates. The Church indeed claims infallibility in matters of faith and morals—and the present writer, in fact, believes strongly in that claim—but not in secular disciplines. The moral injunctions that comprise Catholic social teaching are based, at root, on economic misconceptions and factual error. Polemical assertion is not proof, and it should be obvious that no binding moral obligation can derive from unproven and indeed manifestly faulty premises.

By any definition, it lay well beyond the competence of the Magisterium to presume to describe the workings of economic relationships. Catholics who make this point are routinely accused of denying the Church's right to make moral statements pertaining to economic activity. This criticism is completely baseless, and only serves to distract attention from the substantive issues at stake. Of course the Magisterium may instruct Catholics on the moral demands of the marketplace, since how one ought to conduct oneself in the market involves the application of moral principle—an area, unlike economics per se, in which the Church can indeed claim expertise. Thus the Church has properly emphasized the justice and indispensability of the institution of private property; she has likewise condemned fraud, dishonesty, and theft, all of which derogate from the moral order upon which the market economy is based. This is all to the good, and well within the province of magisterial pronouncement. But the attempt to elevate such principles as the "just wage" to the level of binding doctrine is something altogether different, and indeed is fraught with error. To maintain that private property is just, or that people ought to be upright and honest in their economic activities, requires nothing more than simple reflection on the teaching of Christ, the Fathers, and natural law itself. The same cannot be said for exhortations to employers that they pay a "just wage," for embedded within such counsel is a set of unproven assumptions about how economic relationships work, and the belief that all that stands between the world today and the great society of tomorrow is wise legislation, rather than the capital investment which is alone capable of increasing the overall stock of wealth. One hesitates to describe Catholic social teaching as an abuse of papal and ecclesiastical power, but surely the attempt to impose, as moral doctrine binding the entire Catholic world, principles that derive from the popes' intrinsically fallible reasoning within a secular discipline like economics, seems dubious. At the very least, it appears to constitute an indefensible extension of the prerogatives of the Church's legitimate teaching office into areas in which it possesses no inherent competence or divine protection from error.

Some of Pope John Paul II's *Centesimus Annus* (1991) constitutes a welcome correction to this unfortunate trajectory of twentieth-century Catholic thought, although this document, too, is very far from perfect. A great deal more still needs to be done to continue the tentative steps taken during the present pontificate and to build upon the legacy of those late scholastic theologians who appreciated the harmony, order, and justice that characterize market exchange.

In a contribution to a recent roundtable on *Centesimus Annus*, Gregory Gronbacher pointed to "a central problem with many schools of Catholic social thought, namely, the inability to integrate both the logic of the market and the logic of morality." If the Church is to be taken seriously in these matters, he cautioned, then "it must understand basic economic theory. There are foundational market realities that cannot be ignored for any reason, including moral concerns, because, in so doing, further harm may result to both market mechanisms and morality." This critical point can no longer be overlooked. As Etienne Gilson put it, "Piety is no substitute for technique."[61]

[61]Gregory M.A. Gronbacher, "Economic Personalism: A New Paradigm for a Humane Economy," in *Centesimus Annus: Assessment and Perspectives for the Future of Catholic Social Doctrine*, ed. John-Peter Pham (Vatican City: Libreria Editrice Vaticana, 1998), pp. 67-68.