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Charles K. Wilber

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ECONOMICS AND ETHICS: THE CHALLENGE OF THE BISHOPS' PASTORAL LETTER ON THE ECONOMY

CHARLES K. WILBER*

The bishops' pastoral letter on "Catholic Social Teaching and the U.S. Economy" is fundamentally a moral document. It is not a treatise on economics. It was concern for the effects of the U.S. economy on the lives of millions of human beings that led to the issuance of the pastoral letter. The letter argues that concern for human dignity in social solidarity is at the core of Christian faith. Economic institutions and policies have a major impact on human dignity and thus are not only technical issues but moral concerns as well. Therefore, the bishops argue that every perspective on economic life that is human, moral and Christian must be shaped by three questions: What does the economy do *for* people? What does it do *to* people? And how do people *participate* in it? The bishops further argue that in pursuing the common good, we must pay special concern to the economy's impact on the poor and powerless because they are particularly vulnerable and needy.

In order to implement the principles contained in the pastoral letter, we must develop a set of social goals against which we can measure economic performance. The claim that economic analysis can provide a scientific, value-free means of evaluating the performance of economic institutions and policies, thus obviating the need for social goals, misunderstands the nature of economics. Despite its claim to be value-free, economic theory contains within its very structure a vision of the good society based on the attainment of individual goals. That is, economic theory embodies an individualist, philosophic position that both damages its credibility as a science and frequently places it in opposition to the very idea of social goals. This analysis of the philosophic basis of economic theory requires further elaboration.

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* Professor of Economics, University of Notre Dame.

I. Economic Theory as Social Philosophy

Historically, economic theory developed within an individualist and utilitarian philosophy. Modern economics is usually dated from the publication of Adam Smith's *The Wealth of Nations* in 1776. This book initiated a tradition in economic thinking which continued through John Stuart Mill in the mid-nineteenth century and became known as the classical school in the history of economic thought.

The core of classical economic analysis is the model of competitive market capitalism. According to classical thought, society can depend upon an uncoerced person to act rationally in order to maximize his or her individual self-interest. More importantly, classical economists thought that an automatic, self-regulating mechanism, if built on basic human nature, could manage economic affairs. Free individual choices were expected to overcome scarcity and result in the common good through the automatic adjustments of free exchange in markets. The forces of competition ensured that the economy produced those goods which people desired and, in addition, that maximum output was produced at a given cost or that cost was minimized for a given output. The "invisible hand" of competition governed these results.

Thus, since the days of Adam Smith, mainstream economists have argued that the best way to overcome scarcity and to maximize personal freedom is to rely on the individual's pursuit of self-interest in a private property system regulated by the force of market competition, where the government simply acts as the neutral umpire of the rules of the economic game. Each person would have to produce something (product, service or labor) which others wanted and for which others were willing to pay, in order to maximize his or her income. This system would also maximize overall production.

But what prevents a system of private property based on self-interest from degenerating into a jungle, where the powerful oppress the weak? According to economists, competition is the great regulator of economic life. The forces of competition ensure that the economy produces those goods which people desire in the quantities they want.

As each individual attempts to maximize income and become wealthy, society benefits, because society is the sum of the individuals living in it. Thus, private profit and public welfare become reconciled through the automatic and impersonal forces of competition.

The widespread poverty, unemployment, and low wages which characterized all economies posed a problem to the classical economists. The claim that unfettered competition would overcome scarcity seemed to ring hollow. Classical theory explained the failure in two ways. First, certain countries restricted the free operation of markets. If those countries removed the restrictions on the free play of self-interest, much of the poverty would be eliminated by the resulting economic growth. Second, in those countries that had free market systems, continuing poverty was explained as the result of the niggardliness of physical nature and the improvidence of human nature. The first theory was enshrined as the law of diminishing returns and the second as the law of population.

One hundred years after Adam Smith, Leon Walras, the inventor of *general* equilibrium analysis and a key figure in neo-classical economics, developed a mathematical demonstration that in the long period (a conceptual time period defined as the time required for all production inputs to be perfectly variable), a free market system would attain Adam Smith's optimal welfare equilibrium.[1] The assumptions and conditions necessary for this "ideal state" were so restrictive that the theory was considered of little practical significance. However, as we will see, this theory has played a major role in shaping the vision of economists in the mid-twentieth century.

The final result of this history was not only a particular economics, but also a particular social philosophy. It can be termed the "free enterprise" or "laissez-faire" tradition within economics. This was the dominant view of economics in both England and the United States until the 1930's and, after a forty year eclipse, it has once again become the dominant position in economics. The following propositions summarize this view:

1. People are motivated primarily by self-interest, described best by Adam Smith as an "innate propensity to truck, barter, and exchange."[2]
2. A free market economy, through the forces of competition, converts self-interested behavior into the common good by forcing firms to produce, in the most efficient way, those goods which consumers demand.

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1. L. WALRAS, ELEMENTS OF PURE ECONOMICS (1954).

2. A. SMITH, AN INQUIRY INTO THE NATURE AND CAUSES OF THE WEALTH OF NATIONS 13 (E. Cannan ed. 1937) (1st ed. London 1776).

3. A free market economy requires freedom of choice—of where to invest, of what job to take, of what product to purchase, and so on.
4. Problems in the economy, including poverty, are either due to governmental interference with the free market or are the result of physical and human nature. The scarcity in physical nature requires time to overcome. The perveristy of human nature means some people will always fail and thus be poor; some people are lazy, immoral, or improvident.
5. Public authorities can and should do little besides enforce the rules of the game and provide those goods—i.e., defense—that the private sector is unable to produce.
6. The market economy is inherently stable, and since supply will create its own demand, that equilibrium will generally be at a position of full employment.

In the free competition/laissez-faire view of the economy, the technical and analytical become intermingled with personal interests and underlying world views on society. Thus, this tradition is also at least partly a social philosophy. As a social philosophy or ideology, the laissez-faire economic theory that is dominant in the industrialized West serves two essential and related functions. It restricts the scope of "scientific" inquiry, and it serves as a policy stance to mold society in its image, while lending legitimacy to certain aspects of the status quo.

Laissez-faire theory focuses attention on the niggardliness of physical nature and the improvidence of human nature when it considers the causes of our failure to overcome scarcity. Universally applicable hypotheses are devised which transcend institutional, systemic, and historical variations. The theory focuses potential economic research upon the behavior of individuals and households and constrains attention to that behavior. Thus, people are poor because they make the wrong decisions on questions such as family size, or because they lack the necessary ambition, or because they simply have bad luck in their choices. This theory provides a universal explanation for poverty which exonerates particular economic institutions from blame.

Concentration on the actions of atomistic actors camouflages the existence and exercise of power in an economic system and the fact that poverty is perpetuated if not created by social institutions that benefit certain social classes at the expense of others. Ultimately, the laissez-faire theory becomes a conservative defense of the status quo. Poverty, caused by the improvidence of human nature, can be reduced only by educating people to overcome their natural indolence. Changing economic structures will not make any difference, except to the extent that existing social institutions misdirect the decision-making ability of rational individuals. The individualist/rationalist tradition of the West, with its emphasis on achievement and attribution of responsibility to individuals, lends credence to free market views.

The discipline of economics developed primarily in the individualist societies of England and the United States. Explaining poverty by an appeal to human nature fit very well with the values of an individualist, achievement-oriented culture. Hard work, thrift, and prudence have always been seen as the keys to success, while failure has been attributed to a lack of these values. We have ignored systemic causes of the failure to ensure life-sustenance to all, and instead, we blame personal characteristics.

This theory of a free market economy dominated the thought of economists and policymakers until the 1930's. In the 1980's, the free market theory has been resurrected. What caused the eclipse of laissez-faire for fifty years? Certainly, a major factor was the Depression, which belied the claims of that social philosophy as to both the causes of poverty and the claims of full-employment stability. Further, laissez-faire theory could not adequately explain three major problems in the real world economy: monopoly, externalities, and unequal opportunity.

The market economy, as it actually developed, turned out to have an Achilles' Heel: competition tended to destroy itself. Competition turned out to be a footrace with the winner getting larger and larger and the losers dropping out of the race. Thus, the U.S. economy became characterized by both largeness and a high concentration of firms in each industry. As a result, competition in advertising and product differentiation replaced price competition. To the classical economists, competition was the key force ensuring that the market economy was efficient. Thus, the decline of price competition dealt a severe blow to the credibility of laissez-faire theory and led to calls for government intervention to restore competition through antitrust and pro-competitive policies.

Laissez-faire theory also failed to deal with a second problem in the free market: externalities. An externality is a cost or benefit not included in the market price. For example, it costs a firm $3000 to produce an auto. With a $1000 markup, the sales price is $4000. However, in producing the auto, the firm dumps waste in the local river that will cost $500 to clean up. This $500 is a cost to those who use the river for swimming, fishing, or other activities. As industrialization and density of population increased during the growth of the United States, so did externalities. Thus, again, many called for the government to intervene in order to correct the market failures and to account for these external costs.

Economists also realized that some degree of equality of opportunity was necessary in order for a free market to be efficient and to allow self-esteem and real freedom. Inequalities in income, power, and wealth made claims to equality of opportunity highly dubious. While a high degree of freedom of choice ostensibly existed, it existed only for those in the upper levels of society. Someone without skills or a stable job had few decent choices: to eat a little more or to buy a few more clothes, to continue in a dead-end job or to try to get some type of dole, to vote for someone who would neglect his or her interests or to abstain. And, of course, the poor family's child had little equality of opportunity as compared with the wealthy family's child. Again, this realization led to calls for public policies that would better equalize economic opportunities.

The most serious problem that plagued the free market economy was recurrence of massive unemployment. To worry over the efficiency of resource allocation in the face of large-scale and prolonged unemployment seemed as important as rearranging the deck chairs on the Titanic. When the U.S. unemployment rate hit twenty-five percent in 1933, economists and policymakers were ripe for a new vision and a new social philosophy. In the public's eye, the fundamental problem was that after 150 years of economic growth under a free-market economy, two-thirds of the population were still ill-housed and ill-fed. The easy assumption about the limited, individual causes of poverty rang hollow as millions of hard working persons suddenly found their life-sustenance severely threatened.

The New Deal/Keynesian economic consensus that emerged in the 1930's provided a theory and program to save the market economy. The consensus sought government intervention to correct the first of the free market's four failures—unemployment.[3]

During the 1930's, glaring inequalities of income and wealth, widespread mortgage foreclosures, the absurdity of idle men and idle machines in the face of obvious need, and the failure of the state to take responsibility for alleviating this massive suffering nearly rended the very fabric of society. New Deal politics and Keynesian economics rescued capitalist democracy by providing a new mainstream consensus. Potentially disruptive conflicts, such as massive income and wealth redistribution programs or major changes in the private ownership of productive property, were sidetracked by policies designed to provide minimum economic security through old age benefits, unemployment insurance, minimum wage laws, and guarantees of the right to organize. World War II provided the fiscal stimulus needed to restore full-employment, and the Employment Act of 1946[4] gave the federal government the right and responsibility to utilize macrostabilization policies.

By the 1950's, policy makers concluded that, in addition to these economic security and full-employment policies, rapid economic growth was necessary to maintain full-employment and to avoid conflicts over allocation decisions. The emphasis on economic growth required that the post-World War II economy build upon an ever expanding per capita consumption level. Thus, the first "high mass-consumption" society was born.

In this consumer society, government was called upon to play an even more active role. To make this ever expanding consumption possible and to pacify the poor by ensuring that they participated, at least marginally, in the American cornucopia, both the macro-management functions of government and measures of economic security had to expand dramatically.

The "golden age" of American capitalist democracy was 1961-1967. Per capita income and consumption expanded dramatically; Keynesian economics seemed to meet its test, because the economy achieved full employment and stable prices. In the euphoria of the moment, "fine-tuning" was expected to banish forever the twin evils of inflation and unem-

3. The other three failures of the unfettered market system have been dealt with—however inadequately—piecemeal during the past forty years.

4. Pub. L. No. 79-304, 60 Stat. 23 (codified as amended at 15 U.S.C. §§ 1021-1026 (1982)).

ployment. In addition to successful macro-management, the period witnessed the launching of the Peace Corps and the War on Poverty. It was the era of the New Frontier and the Great Society. The Achilles' Heel of democratic capitalism—unemployment—was finally conquered, and only the faint-hearted glanced anxiously at the first rumblings of inflation.

But cracks began to appear in 1965, spreading through 1968, changing directions in 1969-70, resulting in 1973-75 in the longest and deepest recession/depression since the 1930's and culminating in seemingly endless stagflation. First came the war in Vietnam, then the revolt of the young, followed by inflation, pollution, food and oil shortages, and recession. Economists began to talk about a wide variety of new institutional developments that somehow seemed to have an ominous role in all these crises—the rise of multinational corporations with their transfer pricing and cross-subsidization; the development of foreign multinational firms as competitors; the coincidence of the business cycles of the United States, Japan and the Western European capitalist countries; OPEC, the oil cartel; and the apparent impotence of government. And, as if this was not enough, the simultaneous appearance of massive unemployment and double-digit inflation—stagflation —shattered the Keynesian consensus.

As a result of this stagflation crisis, the American electorate opted to embrace the old-time religion of unfettered free enterprise under the guise of supply-side economics. This choice was preferred to President Carter's slightly more liberal version, masquerading as the descendant of the New Deal/Keynesian consensus that had dominanted the previous forty years.

Government programs established under the New Deal/Keynesian consensus were attacked because they reduced incentives and thus productivity. Free up the economy and all would be well. Reduce welfare, minimum wages, and unemployment benefits so that the poor would have greater incentive to work. Lower taxes, and remove regulations on business so that the resulting higher profits would encourage corporations and wealthy individuals to save and invest. Increased productivity and a growth in GNP would result. Eventually, the benefits would trickle down so that even those on the bottom would be better off than before.

Unfortunately this is more ideology than fact. The resurrection of free market economics has substantially reduced inflation but at the cost of a massive recession during 1981-

82, continued high unemployment, increased poverty, accelerated decline of the old industrial base, and record budget and balance-of-payments deficits.

We have made the economy our master instead of using it as our servant. We close industrial plants, create unemployment, and devastate whole communities and call it an efficient reallocation of resources. We, who are prospering from free market policies, caution that nothing can be done because natural economic forces are at work. The poor, the unemployed and the under-employed bear the burden of this individualist free market myopia.

In both economic theory and economic policy-making, the implicit goal is clear: individual freedom to pursue self-interest. The supposed icing on the cake is that the greatest good for the greatest number will result. The role of government is to facilitate the workings of this system. For the conservative, that means doing little—enforcing contracts, financing a defense, and erecting certain public works. For the liberal, it means attempting to correct at least some of the largest market failures—unemployment, unequal opportunity, environmental destruction.

In the most fundamental sense, free market theory implies that there are no social goals, only individual goals. Society is seen as merely an aggregation of individuals. Milton Friedman, in his usual trenchant manner, provided a short summary of the free market position:

> The central planners want planning by them for us. They want the government—by which they really mean themselves—to decide "social priorities" (i.e., tell us what is good for us); "rationalize production" (i.e., tell us where and how we should work); assure "equitable distribution" (i.e., take from some of us to give to others of us). . . . Such planning, from the top down, is inefficient because it makes it impossible to use the detailed knowledge shared among millions of individuals. It undermines freedom because it requires people to obey orders rather than pursue their own interests.
>
> I am for planning, too, but planning by each of us separately in light of our individual, though shared, values, coordinated by voluntary exchange in free markets. Such planning, from the bottom up, enlists the interests of each in promoting the well-being of all. Government has its role—to provide a stable legal and monetary framework, enforce contracts and adjudicate disputes and protect us

from coercion by our fellow citizens.[5]

Adam Smith could not have said it better. Two hundred years of change in the economic world are irrelevant to economic theory. Free market theory envisions no Rockefellers, no multinational corporations, no imperialism, no environmental destruction; just many small buyers and sellers engaging in production and exchange, and thus maximizing their freedom and economic welfare. If we could only get government to tend to its proper business, all would be well. This vision of the world may be beautiful, but it *is* a vision, and a vision which is completely at odds with both the realities that constrain us and with the tradition of Catholic social thought.

II. The Catholic Tradition and Social Goals: Toward a New Social Consensus

Catholic tradition sees society as more dense and complex than a simple aggregation of individuals. Society is composed of individuals and groups (families, neighborhoods, parishes, ethnic groups, associations and governmental units), and is characterized by *interdependencies* among these individuals and groups. This interdependence makes sole reliance on individual goals inadequate. The difference in power among individuals and groups, and thus differences in the degree of interdependence, means that total reliance on the free market will lead to unjust outcomes.

There is no escape, therefore, from enumerating social goals with which to evaluate economic institutions and policies. To do so, we must create a new social consensus. This creation can take place only within a moral context, one in which the too-easy separation of moral values and economic behavior is realized for what it is—impossible and destructive. A key starting point is a moral stance consistent with our underlying value structure, but which can guide us in making economic decisions, both individually and as a society.

The Catholic bishops have tried to provide this moral stance for us. They have entered the public debate by insisting that economic issues are moral issues. They have drawn upon the richness of Catholic tradition to provide moral principles for guidance.

As an economist, I take the bishops' challenge seriously. The following is my attempt to translate that challenge into a

5. Friedman, *National Economic Planning*, Newsweek, July 14, 1975, at 71.

framework for economic policy. Of necessity, it is brief. It begins with a specification of social goals followed by a presentation of those moral values that can provide the basis for a new social consensus.

A. *Social Goals*

Following the work of Denis Goulet,[6] there are three specific goals for an economy. The first is "life-sustenance," which corresponds generally to physiological needs. Thus, every society strives to provide its citizens with the basic goods that are necessary for life—adequate food, water, housing, clothing, education, and health care; a successful economy will be one which can provide these necessities. The satisfaction of this goal is directly linked with overall economic performance. Unemployment will affect the ability of those without jobs to satisfy their need for life-sustenance; inflation can erode the purchasing power of portions of the population; and growth may be necessary to provide life-sustaining jobs. Instability in the economy and the economic cycle can also affect life-sustenance.

But we must also ask how to specify life-sustenance. One method is to differentiate among three types of goods. The first are necessities, such as food and water. Within some limits, the needs of people in this realm can be specified. The second type of goods are "enhancement goods," those which make life more vital, more interesting, more worth living. Examples might be music, religious institutions, various forms of entertainment, some household goods, and so on. The third level of goods involves what are commonly known as luxury goods. Driving a Cadillac instead of a Chevrolet, buying a marble-topped table instead of a wooden one, and walking on a llama rug instead of a polyester one, are all instances of consuming luxury goods. So, to what level of goods do we refer to when we talk of life-sustenance?

That is a difficult question. We can all agree that basic needs must be met. Most believe that enhancement goods are worthy of pursuit. Less accord exists on luxury goods. Traditional economics in the United States has claimed that individual wants are unlimited and that luxury goods satisfy wants, as do basic goods. If individuals want Cadillacs and llama rugs, and if the economy can produce such luxuries, it

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6. D. GOULET, THE CRUEL CHOICE: A NEW CONCEPT IN THE THEORY OF DEVELOPMENT 236-49 (1977).

ought to produce them. Some voices dispute this view.

A second component of societal goals found in most societies is esteem and fellowship. An economic system should provide a sense of worth and dignity to its citizens. One's goods can be a measure of societal esteem. But there is more. The institutions in which citizens work should support them physically *and* give them a sense of belonging and contributing to an important undertaking. Society should have clubs, churches, or other entities which support the individual. If the family is the basic social and economic unit, as is the case in the United States, the economy should support this unit and lend to families a sense of self-esteem that can sustain them. Another term for this support is fellowship—the economy should promote right relations among its participants, and, to the extent that it can, the economy should keep life from being "nasty and brutish," while providing life-sustenance to lengthen it.

No society can function smoothly, without disruptive tensions, if there is no fellowship among its members. If people are alienated from one another and if society is fractured into myriad self-interested and self-centered individuals or groups, society will not survive. If no genuine concern exits for one's neighbors and if empathy for others disappears, then each small self-sufficing entity (whether this be family, occupational group, or individual) will eventually withdraw into itself and live at odds with others. No social system can prevail which endorses or engenders such self-centeredness. If material economic well-being is at the heart of social success, then surely fellowship is the lifeblood that sustains the community. Fellowship is the cohesion in a society that makes one individual feel a closeness and a unity of purpose with all others in that society, whether personally known or not. Consequently, besides providing for the material needs of its members, an economic system must also encourage the growth of widely shared esteem that yields a life-giving and life-sustaining fellowship.

This goal of shared esteem implies an element of equity among the citizens. A society which gives minimal income to most of the population, and fabulous wealth to one or few families, cannot provide esteem or fellowship. Equity, of course, does not necessarily mean equality, but it does mean that there be some consensus regarding the justness of the distribution of wealth and income.

The third goal of the economy is freedom. Freedom played a major role in our own history as an important component of the drive for independence from England, yet it is still a difficult goal to specify clearly. Freedom obviously does not mean that every individual must have complete freedom to do whatever that person wishes, for that would be anarchy and the death of society. At its weakest, an increase in freedom means that the range of options open to the individual or the group has increased—that there are more choices available. This has its physical side in choice of goods, but it can also operate in other spheres, such as the political or religious.

The goal of freedom contains three component parts. The first, which is usually the one at the center of much economic theorizing in the United States, is consumer sovereignty. As noted above, consumer sovereignty means that individuals should be able to choose the goods that they wish to consume.

The second part of freedom is worker sovereignty. People must have a choice of jobs that they find meaningful and which enhance their human capacities. Some mechanism must find people's preferences for work, add up those preferences, and generate the types of jobs required. A variety of mechanisms could satisfy this need: labor mobility among jobs of widely different characters, control by workers over their job situations, or provision of capital resources to laborers to allow them to establish their own undertakings. Whatever the mechanism, this characteristic is important because work plays a vital part in human development.

Citizen sovereignty, a mechanism to aggregate people's preferences for community, is the third component of the freedom goal. What will be the community with which an individual interacts? What kind of community do people want? What kind of environment do they want? The concept of citizen sovereignty implies that society provides the citizen with a way to express preferences and to control communities. Several mechanisms could satisfy this requirement; these mechanisms may be quite different from our usual image of democracy based on voting procedures in the United States. Citizen sovereignty could be enhanced through the formation of local groups for citizen participation in decision-making, such as block committees in urban areas and cooperatives in rural areas. Or perhaps local residents might participate in the operation of local industries in their areas in order to minimize the negative aspects of industrial production, such as noise and pollution.

These three social goals—life-sustenance, esteem and fellowship, and freedom—embody the core of Catholic social thought and express much of what is best in the American experience. Acceptance of these goals will require the creation of a new social consensus to replace both the reigning free market philosophy and the presently discredited New Deal/Keynesian consensus.

B. *The Role of Moral Values*

A new social consensus on economic policy could be built on three central moral values derived from the bishops' pastoral letter, which are compatible with the best in the American spirit and tradition: stewardship, jubilee, and subsidiarity. These moral values relate directly to the three major economic goals: providing for basic human needs, generating freedom of choice, and fostering conditions for good human relationships (fellowship).

Note the contrast with the manner in which President Reagan's economic program was conceived and developed. There was indeed an effort to provide a moral base, but it was the base of the competitive individual whose self-interested behavior would be made socially beneficial by the invisible hand of free market competition. Current performance should be evidence enough of the program's wrong-headedness, at least for the less well-off. Second, the program did not deal openly with the social contract. Instead, it has attempted to enforce a redistribution of income, from the less well-off to the more well-off, by hiding behind the rhetoric of "supply-side economics." Any program must be open about its distributional impact and admit that some adjustment needs to be made in income shares. This may make the economic program less politically salable, but it ultimately will make the policies adopted more successful; indeed, it is the basis for any successful confrontation with the reality of current economic problems. In this spirit, the following is offered for thought, reflection, and action.

1. Stewardship

The initial moral value which runs deeply in the Judeo-Christian moral tradition is stewardship. A steward or trustee conception of property differs from that which underlies the theory of the market economy. John Locke argued that private property was a necessary part of a good society.[7] Private

7. J. LOCKE, TWO TREATISES OF GOVERNMENT (P. Laslett ed. 1960)

property is justified by and derived from the labor of its owner. This labor theory of property came to be one of the crucial elements of the classical economic doctrine. Because persons had wrested the soil from the state of nature and had cut the trees and so on, that land should belong to them, and they should be entitled to use it for whatever purpose they saw fit—and so should their children and grandchildren. The modern economy, with the dominant role played by huge corporations, is far removed from property creation in the sense of Locke.

In contrast to the Lockean theory of property, the stewardship conception states that private individuals may own *and use* property for their own interests *but* only as long as their use does not result in harm to the common good. For example, we must weigh a local community's need for employment against a firm's property right to relocate a plant to a different community.

The specific implication of this moral canon is that society is responsible to ensure that the resources at its disposal are used well. More specifically, if the system of automatic adjustment through markets cannot deal meaningfully with the current problems, there should be no difficulty in interfering to ensure that economic performance improves. I do not suggest that an economic system should capriciously interfere with property rights; however, where the evidence shows that some interference or change is necessary to improve the overall functioning of the economy, the demands of stewardship should rule.

2. Jubilee

Good human relationships do not thrive in the context of extreme competition, where self-esteem comes from one's position relative to others. An alternative approach to such hierarchial patterns is the biblical concept of jubilee, which was the ideal if not always the reality. "Jubilee" grows out of the institution described in Leviticus which saw every fifty years not only as a time of celebration but also as a time of restitution, remission and release. Slaves were released, and land and houses that had been sold reverted to the original owners or their heirs.[8] In this fashion, society had a mechanism which allowed inequality (competition) but also re-

(1st ed. London 1698).

8. *Leviticus* 25:8-55.

dressed its detrimental tendencies in the interest of maintaining social cohesion.

Our economy does not function any better because of the substantial inequalities which we have built into it, contrary to what the present administration would have us believe. Are our workers' energies stimulated by the possibility of buying $10,000 designer revolvers or $95,000 chinchilla bedspreads that continued in popularity even during the worst of the 1981-82 recession? Would corporate chief executives quit to the quiet of their homes if their incomes were lower than the 1977 median of $471,000? Hardly, as they would still be rewarded well in monetary terms and in psychic income—pride, challenge, power, status.

A more successful approach economically, in terms of the goal of fellowship, would be to build on an ethic of jubilee. By this, I do not mean an immediate and massive redistribution of income, but rather the adoption of policies that provide, with dignity, an income guarantee and a full employment policy for all who can work. In addition, basic goods, especially housing, should be ensured to all.

These policies would not only increase the absolute level of income of the lower income population but would reduce *de facto* the relative income differences. A jubilee ethic would provide the motivation necessary for these policies.

3. Subsidiarity

We will find solutions to our economic problems only if citizens are willing to cooperate in the difficult readjustments necessary to change the economy. This cooperation requires that policies be developed and implemented at the lowest feasible levels. This embodies the principle of subsidiarity.

Only half of the eligible electorate bothered to vote in the last U.S. elections.[9] National institutions have become too large, too uncontrollable, too unresponsive. Yet, there has been an incredible proliferation of neighborhood groups. We must develop smaller institutions more responsive to individual needs.

United States society today is characterized by largeness of firms and government institutions. Exxon, GM, and IBM are all mega-institutions. Government agencies, such as the Department of Defense, are even larger. Socialist economies share this same characteristic. Their economic institutions

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9. G. POMPER, THE ELECTION OF 1984, at 85 (1985).

are even larger and more bureaucratized than ours.

The development of the U.S. economy has created a fundamental dichotomization of social, political, and economic life. Put most simply, the dichotomy is between the mega-institutions and the private life of the individual. People could cope with these mega-institutions if the dichotomization process had not so deinstitutionalized the private life of individuals. People have always found their identity through and, in turn, impressed their values on, the mega-institutions through what Peter Berger calls "mediating structures."[10] This is where freedom is nurtured and protected, where the counter to bureacracy lies, where moral values can play a role in resource allocation. However, this interlocking network of mediating institutions—family, church, voluntary association, neighborhood, and subculture—has been severely weakened by the growth of the mega-institutions that have taken over many of their traditional functions.

Ways must be found to revitalize mediating institutions from the bottom-up. A good example is Germany's effort to give workers a direct role in decision-making. We should seriously investigate these possibilities. We should also be willing to examine new forms of organization, such as workers' ownership.

An encouraging note in a generally grim picture is the growth of not-for-profit organizations. In many cases—credit unions, employee stock ownership plans, neighborhood associations—these have been grass-roots responses to the dichotomization of modern life. Thus, an important part of economic policy must be the fostering of not-for-profit organizations. In general, public policy should (1) do nothing to further harm these mediating institutions, and (2) try to use these institutions to implement policy.

III. A Summing Up

The road ahead is not easy, and the precise directions of change are still ambiguous. One thing is clear: the choices made at the national level cannot be relied upon alone as the most effective manner of working toward revitalization of the U.S. economy. These choices will simply create more mega-institutions.

A national/regional/local planning system will be neces-

10. Berger, *In Praise of Particularity: The Concept of Mediating Structures*, 38 Rev. Pol. 399 (1976).

sary to ensure full-employment, stable prices, and the implementation of social policy. An economic system which guarantees jobs will require an increased level of democracy in order to function effectively. When workers are freed of the fear of losing their jobs, our system will need democratic cooperation to replace fear as the motive for working.

A careful balance must be maintained between the central economic planning necessary to control the corporate sector for the common good and the decentralization necessary to make worker self-management, local government, and mediating institutions foster freedom of choice and fellowship.

The needed economic changes have no chance of success without the development of a new social consensus. That social consensus, in turn, requires the reconstruction of the moral base of our economy. To this end, moralists must help economists and politicians articulate the necessary values and goals. The bishops have taken the first step. I hope many others follow.