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**Ensayos de Política Económica – Año 2013**

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### ***Ensayos de Política Económica – Año 2013***

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## CATHOLIC SOCIAL ECONOMY: PAST EVOLUTION AND PRESENT CHALLENGES

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Conferencia dictada el día miércoles 8 de agosto de 2012 como parte de la Cátedra Konrad Adenauer, Escuela de Economía Francisco Valsecchi" de la Pontificia Universidad Católica Argentina (UCA).

### I. Introduction

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This article provides a historical interpretation of Catholic social economy (also called Social Catholicism) in an attempt to give a Christian form to capitalism. The aim of this writing is to reflect on the evolution of Catholic economic thought and to offer some foreseeable development in light of the experience that characterized the early stages of this movement. By Catholic social economy, the author does not mean the social doctrine of the church, but the whole set of scientific work of Catholic scholars, with their different orientations and acceptance by the official documents of the holy soil.

Roman Catholicism is the only religion that has produced wide and continuous scientific research about political economy. This should not be considered an anomaly, because the positivistic attitude of modern economics tends to crowd out the classic unitary view of man and of a good life that characterizes Catholic anthropology. As a consequence, it can be considered an attempt to address scientific research in a way compatible to the Catholic view of the "social nature of man", and not an attempt to resist or to contrast the role of science. The fundamental concepts of this stream of research have been the idea of *natural law* intended as a moral order (vs. the equilibrium of conflicting strategies), the *social nature of man* (vs. individualism and individual autonomy) and the role that *charity* and *justice* assume for individual behaviour inspired by the common good (vs. freedom and *laissez faire*).

In the nineteenth century, the main purpose of Catholic social economy was to propose a view of the economy, which was an alternative to that expressed by liberal political economy, to support the development of institutional reforms. In general, its trajectory has been more differentiated and much more difficult to rationalize than the position of classic liberals. Moreover, this thought had more success as a guide of politics than as a theoretical academic discipline. It also had success in symbiosis, with forces that drove national institution building in European countries that were characterized by late development.

In the next section, a brief logical history of Catholic social economy is presented according to an unconventional dimension of analysis: institution building for embedding markets. In the third and fourth sections, the impact on the academy and on politics is discussed. Then, the fifth section analyses the crisis of this perspective in the second half of the twentieth century, and in the sixth section the main contemporary streams are confronted with the old ones. Finally, the present economic challenges that demand a renewed commitment of Catholic scholars are analyzed. The

conclusion will argue in favour of a renewed effort of studies adopting a legal-institutional perspective in order to contribute to concrete reforms able to constitute a new global economic order.

## II. The evolution of Social Catholicism

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Three main kinds of Catholic economic thought can be distinguished:

1. Catholic economists developing theories that are nonconflicting to church gospel (for example, the theory of production expressed by Pasinetti);
2. economists contributing as consultants to the official doctrine in the economic field;<sup>103</sup> and
3. economists developing science in the specific paradigm of social Catholicism, that is, doing their research in a way to develop a knowledge according to the specific hypothesis on the nature of man and society directly or indirectly derived by theology (via Catholic anthropology).

The third of these points is relevant here and includes both economists and moralists who have developed some kind of economic analysis. Scholars can trace the beginning of this scientific practice to the works of Villeneuve Bargemont and Charles de Coux in the 1830s.<sup>104</sup> Then it developed, spreading first in the European continent, later in the United States and in the rest of the world. The disruption of the *ancien régime* induced the need to define a new position of the church in society. That required tackling the role of science, which was the main instrument of legitimisation for the bourgeois society. This task was made politically easier by the troubles caused by liberalism, the *social question* and the instability of capitalism, which demanded alternative views of political economy to be worked out.

Therefore, Social Catholicism was a cultural reaction to liberalism. Nadia Urbinati (2013) defined such reaction as the "conquest of the liberal society" (p. 187) Actually, for most of the nineteenth century, in most of the world, there still was not a "liberal society". Liberal regimes were unsuccessfully trying to shape society and, alternatively, many forces opposed this effort. The economy of that time can best be described as in a state of insufficient or unfit regulation compared to the level of coordination needed by the emerging industrial socioeconomic system. Moreover, Catholic scholars, until the end of the century, simply framed the problem as a "bottom-up" cultural battle. In particular, they were not against capitalism, markets and freedom of choice. However, they had a different view of man and society to defend.

To be clear, Urbinati (2013) points out three main epistemological pillars of liberalism:

1. the sovereignty of the individual, particularly on moral judgments;
2. the constitutional state as the optimal political system; and
3. the free market, that is, individual interest plus competition as the optimal allocation mechanism and organization of the economy.

By the middle of the nineteenth century (after notable hesitations), social Catholicism had to accept the constitutional state, but it could not accept the radical-individualist version of the first and third of these foundations. Then, a further political challenge

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<sup>103</sup> For example, Stefano Zamagni is said to have contributed to recent encyclical letters.

<sup>104</sup> See Duroselle (1951).

emerged from socialist thought, which contested the third of these points, but not individual sovereignty on moral judgments.

In this way, Catholic scholars proposed their agenda for political economy reforms facing two different theoretical positions, liberalism and socialism. They did not propose a further ideological interpretation of modernity. Instead they proposed a “third way” consisting of a different epistemology of change, based on a realist and unitary interpretation of society based on Catholic anthropology and natural law. Therefore, the main aim of Catholic scholars has been the scientific study of the “sociability” of man and of various action motives alternative to self-interest. They have, in this way, focused on the role of different allocation mechanisms in the well-being of society. Alternatively, their most difficult theoretical task was to integrate freedom with law and morals, while positivistic liberalism kept these three elements apart. The result was an ethical economy exalting the role of civil society and institutions able to coordinate individual strategies.

Catholic social economists brought to light the social bases of markets and the role of “liberty” (freedom where the rights of each person are respected). They also always underlined the essential role of natural social organization through collective action, authority and subsidiarity. Social Catholicism is a public moral philosophy, where the public dimension is given by the necessary social dimension of human action (Possenti, 1988). Institutions in this perspective embody practical reason. In particular, the neo-Thomistic approach to social economy has made an effort to integrate the study of the economy in a legal view of human interaction. In line with older schools of political economy,<sup>105</sup> this field was conceived as a *practical science*. In that view, economics was not conceived of as a separate and autonomous discipline, but as a study oriented to policy. Specific attention was paid to the epistemological problems implied by studying the economy in this way.

The consequence is that Social Catholicism was not much in competition with other theories at the theoretical level. Rather it adopted a different epistemology of change and derived different policy views. This also meant that, not being a rigid theorisation, it evolved in time to fit the context and the specific issues emerging as problematic.<sup>106</sup>

These studies did see a variety of currents and orientations. During the second half of the nineteenth century, neo-Thomistic thought prevailed thanks to the work of the Jesuits. They expressed an economic-legal interpretation of political economy that concretely addressed the social question and the problem of the working poor. They have been able to find compromises with aristocratic or social-conservative political forces engaged in nation building. That allowed them to study and put into practice reforms that, on the one hand, helped to organize civil society in the way of self-help, but on the other hand, they contributed to the structuring of state institutionism, reducing the uncertainty produced by industrialization.

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<sup>105</sup>For example, cameralistic sciences, but also the Italian tradition of political economy (from Genovesi to Romagnosi). See Bruni and Zamagni (2007).

<sup>106</sup> Social Catholicism experimented with divisions between the liberal wing (Rosmini, Péron) and the “aristocratic” wing—from Villeneuve-Bargemont to Ketteler (Solari, 2007).

During this first successful stage, the dominating stream of Social Catholicism was based on two fundamental aspects:

1. the translation of moral principles into a legal-economic perspective (the reference to natural law from Taparelli to Pesch); and
2. a practical perspective oriented to institution building and reform.

The legal and practical view of society led these scholars to focus on institutions and institutional change as a way to deal with economic problems. The main aim of this writing is to underline the role of institution building oriented to "embedding" markets in a legal framework granting solidarity. Therefore, the problem was not to conceive an alternative to markets, but to embed markets in social institutions.

### **III. Its practical impact**

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This legal approach to social economy had the advantage to be able to develop a view to understand the coordination effect of institutions and to be able to identify a set of rules and institutional arrangements able to reduce uncertainty and to make markets work for the well-being of the many. It could in this way converge with other forces to promote the birth of fundamental institutions that constituted the skeleton of the European "corporative economies"<sup>107</sup> and, later, of the *social market economy* (Kersberger, 2004). In particular there was a certain convergence with conservative-nationalistic forces that in many countries, in the second half of the nineteenth century, regulated the labour market.<sup>108</sup> Catholic social economy gave an essential contribution to the most important institutions in the development of European capitalism:

- 1) *Labour regulation*. From the 1850s, in particular in continental Europe, regulation improved labour conditions, reinforcing the position of labourers, eliminating child labour and reducing the working week. Also professional and labour associations were allowed and developed.
- 2) *Social insurances*. In 1883, after two years of debates, the Bismarckian social insurances came into being. Compared to the actual formula, Catholics would have preferred no state involvement, but their achievement was equally a success and insurances diffused everywhere. The original preference of Catholic social economists was for corporative-like institutions: associations, corporative regulation and sectorial insurances. Only in the second half of the twentieth century was some favourable attitude of a part of this movement addressed to universalistic services and wider state intervention.
- 3) *Co-determination*. After the Second World War, the new social and political compromise of German-speaking countries included a participation of labour in the surveillance boards of large companies. That contributed to the solidity of German companies, and with *anti-trust* represented the back-bone of the *social market economy*. Von Nell-Breuning S. J. gave an important contribution to this

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<sup>107</sup>See Solari (2010).

<sup>108</sup> There was some harsh contrast with these forces in the case of the German *Kulturkampf*. But later, Catholic forces were important in the birth of the Bismarckian social insurances (with some diverging ideas on the role of the state).

last reform, and the Italian economist Francesco Vito (1945) was favourable to its introduction in Italy.<sup>109</sup>

These reforms shaped the pattern of growth of continental European economies from the late nineteenth century to the end of the twentieth (Kersberger, 2004).

#### **IV. The academic impact**

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The aim of social Catholicism was mainly to model the political culture of ruling classes.<sup>110</sup> It had very little success in academia. There are some remarkable figures of political economy professors, such as Charles Périn or Giuseppe Toniolo. However, social economy and its Catholic stream never became an acknowledged current of thought. Interestingly, the only exception is in the United States in the case of the Catholic Economic Association, founded by disciples of Heinrich Pesch (Franz Müller and Goetz Briefs—joined by Schumpeter), that eventually changed its name to the Association for Social Economics. The *Review of Social Economy*, which is an organ of the association, has reached a good position in the economic community.<sup>111</sup> However, other journals that publish works in the line of Social Catholicism tend to be confined to a strict club of followers.

The reason for little academic success, particularly today, is the incompatibility between the positivistic attitude of mainstream economics and the practical approach of Catholic social economy. Standard economists prefer to discuss economic and social reforms from the principles of abstract theorizations, made more rigorous by econometric tests (which are often more able to hide reality than to show it); social economy prefers to study reforms that are guided by ethical principles by observing the actual structuring of society, using in this process some instrumental and “impure” theorisations. As a consequence, a deep lack of understanding exists between these two worlds.

#### **V. The difficulties of the 1960s and 1970s**

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This orientation of Social Catholicism apparently exhausted its cycle in the 1960s. The reasons for its decline are various. First, it achieved many results, people reached a higher level of well-being and in many European countries Catholic leaders reached power (Adenauer, De Gasperi...) Therefore, the stimulus to study and to engage in new reforms was, in part, lost in favour of the management of the contingent problems (reconstruction above all). Second, the variety of currents exploded in the 1960s. In particular, some radical Catholic thought emerged and crowded out the prudence of social Catholicism. Worth mentioning are some exponents of the Frankfurt school or Ivan Illich’s radical criticism of modernity. The latter, in particular, highlighted the difficult conjugation of progress and communitarianism, solidarity and competition,

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<sup>109</sup> In Italy, Francesco Vito, the most important Catholic economist studied codetermination and proposed it as a solution for the governance of large firms. The proposal of adopting this institution was blocked by the communist party.

<sup>110</sup> The education of the last Austrian emperor, Carl I, was particularly influenced by Social Catholicism. Then in many European nations a Catholic political party was founded with political programmes rooted in these studies.

<sup>111</sup> Also the *International Journal of Social Economics* publishes articles with this orientation and upholds an excellent standard.



that existing institutions were able to tackle only in part. In particular, besides their immense interest, these researches lost sight with the method and aim of the “third way”: social progress by embedding capitalism in functional institutions.

Some scholars attacked the social doctrine as ideological (Chenu, 1979). Actually, the whole corpus of the social doctrine was quite Euro-centric, as it was the result of studies on the industrialization of continental-European societies. Chenu also accused the corpus of achieved knowledge as lacking psychological and sociological realism.

Encyclical letters of these years represented, in view of what happened after, a radical move to diffuse and apply the reformist spirit and practice of Social Catholicism. For the first time the encyclical letter was ahead of Catholic social economy studies. *Populorum Progressio* (1967) asked for a concerted action for integral human development and the solidaristic development of humanity. The pope proposed the notion of a *global social question* and required some world solidarity to improve the situation. This document also contains a condemnation of the system based on profit, saying that “competition and private property of the means of production” (n° 26) leads to unequal exchange. Alternatively, *Octagesimo Adveniens* (1971) affirms that it is difficult to propose a universal solution and that pluralism is a necessary solution. That encyclical letter is also important for emphasizing the role of research. Research is the first step, helping creative innovation (n° 42). Human sciences are, in this way, legitimised to help the development of viable solutions for human progress.

The real innovation did not come. In this author’s opinion, the progressive abandonment of natural law and neo-Thomism as a reference had the consequence of a loss of sight for institution building based on social justice. The changed context was no more favourable.

## **VI. Personalism, civil economy and contemporary currents**

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From the 1980s a clear change of perspective can be perceived in Catholic socioeconomic studies. Moralists and scholars referring to a legal perspective on markets tended to disappear from the scene. Moreover, papal documents also let understand a preference for the abandonment of the “third way” in favour of a more “institution-free” approach. In this context a variety of streams that could be included in the “trademark” of *Catholic social economy* emerged. Among the many, four streams of thought deserve some attention: personalism, business ethics, civil economy and social market economy.

Although the first utilization of the brand “personalism” relating to the philosophy of Mounier can be traced back to Francesco Vito (1949), economic personalism mainly developed in the United States after the 1960s, thanks to the work of Peter Danner (1982) and Edward O’Boyle (1998)<sup>112</sup> and was strictly connected to the teaching of John Paul II. Its main characteristic consists of shifting the level of analysis from the society and from the institutional level (the moral order of the economy), which characterized early social Catholicism, to the study of the *acting person* or what Peter Danner calls the *economic person*. This shift of perspective was fostered by the integration of the new philosophical perspectives of Emmanuel Mounier and the phenomenology of Max Scheler. Moreover, personalist economics abandoned the

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<sup>112</sup> Readers should also remember the important work of William R. Waters and Thomas F. Divine.

policy-oriented perspective of the older approach in favour of a more theoretical approach.

The second interesting stream focuses on business ethics, and its main aim is to develop principles of corporate behaviour compatible with the Christian gospel. Its main instrument is *corporate social responsibility*, which is expected to diffuse good business practices. This stream has not abandoned the attention on institutions, but it conceives their development as a process of diffusion through general appreciation of virtuous behaviour. This is an important instrument to the dissemination of good practices in the globalized and denationalized world. The success of this perspective is not questioned here, but its extent and times of diffusion appear as quite uncertain.

The third stream, civil economy, connects Catholic morals to more orthodox economic methods. Civil economy, the legacy of the mild enlightenment of Genovesi and Italian political economy, represents a symbolic example of how economics do not need to be radically individualist. The leading authors are Luigino Bruni, Stefano Zamagni and Pier Luigi Porta. They find a bridge in the philosophical microeconomics of Bob Sugden (Bruni & Zamagni, 2007).<sup>113</sup> The focus of the research is therefore on interpersonal relationships as a microfoundation of social facts. Porta (2013) resumed this perspective as the combination of three different elements:

1. a concept of the economic order based on *civil society* rather than based on state authority;
2. a setting based on the evolution of institutions through continuing *reform*; and
3. a scientific and cultural emphasis on practical applications or *policy issues*.

Basically, it is inspired by “practical science”, but also related to theorizing.

The fourth stream of contemporary thought is related to contemporary Liberal Catholicism, rediscovering Rosmini (Hoevel, 2013) or continuing the tradition of the *social market economy* (Felice, 2008; Resico, 2010). This approach recognises the role of both morals and institutions to shape the economic order, assuring the good functioning of markets. The idea of Liberal Catholicism is not in contradiction with the whole idea of Social Catholicism. This stream brings forth the same idea of concrete improvement of the economy in the spirit of the “third way” and, it is probably the only one that has preserved the legal-institutional view of an economy that is able to properly conceive reforms.

The great achievement of these streams of thought is that they have produced a scientifically acknowledged thought. Results of these researches are published in scientific journals and in some cases represent a progressive force in the development of economics.

The criticism that can be addressed to this galaxy of Catholic thought, taken as a whole, is that in the past twenty years, it has been rather unattentive to the “disembedding of liberalism”.<sup>114</sup> Often, it has supported measures that have made the way to financialisation easier. It has not resisted the dismantling of those institutions, particularly labour market regulation, that the same Catholics built. Such institutions were obsolete, but no real alternative rule to keep the whole economy of work at the service of man has been recommended—with the exception of

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<sup>113</sup> The idea of an Italian political economy prior to Adam Smith is difficult to export to Anglo-Saxon countries.

<sup>114</sup>This term has been proposed by Blyth (2002) and uses the framework of Polanyi.

corporatesocial responsibility. This is mainly due to the re-centring of the theoretical focus from institutions to the single person, from rules to individual virtuous acts, from justice to the gift, from the respect of duties toward the next to the alignment of preferences. All that is a progress in microeconomics, but the genuine institutional dimension of social economy has been marginalized and the ability to understand reforms is diminished.

## **VII. Challenges of the new century**

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Recently, *Caritas in Veritate*, continuing where *Populorum Progressio* was suspended, has proposed an ambitious programme of studies in social economy. This is the second time that an encyclical letter precedes the achievements of social economic studies. The main issues are:

1. the resizing of finance to be a useful service for society and not an instrument of instability and inequality; and
2. the conception of institutions that are able to manage being open to the whole world, mastering globalization and the "global social question".

The problem is that most of the achieved knowledge and institutional strategies adopted in the history of Social Catholicism are unserviceable. Collective action oriented to balancing markets in the form of labour unions, labour legislation, social insurance, governance enlarged to labour and corporative regulation of professions are presently of little help because they are crowded out by globalization. These measures were effective in the framework of the nation-state, and they required the formal law to be enforced. Social Catholicism was successful in moderating finance in the late nineteenth century and in the middle of the twentieth century because of the help of external factors that today have disappeared, such as nation building and the Cold War.

The old idea that each state should adopt these institutions to solve its internal social question was already considered inadequate by the end of the 1960s in the two encyclical letters previously cited. Globalization definitively compromised that "club-based" strategy of "reshaping income distribution", because poverty is communicated by international capital movements, migration and trade.

Therefore, only supranational institutions can regulate such denationalized processes. However, no institutions at the interstate or supranational level exist within this scope. Difficulties exist also at the regional level (for example, the crisis of the euro-zone).<sup>115</sup> Therefore, in the past thirty years the process of "disembedding" capitalism (Blyth, 2002) has disassembled the old mechanisms that solved the social question, granting a relatively equal distribution in the "mixed economies". Now, past solutions, such as labour regulation and large-scale redistribution performed by social insurances, simply represent a cost for global companies that harvest profits by arbitraging between the poverty of southern workers and the still relative good income of northern families. But such arbitrage is eroding the middle-low class income in the north and not contributing to the well-being of the southern poor.

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<sup>115</sup> The "competing jurisdictions" has been a failure in Europe: it was the wrong mix of solidarity, responsibility and competition.

The fact is that today there is a lack of instruments to control such processes and a lack of ideas about how to do it. The point is that Catholic scholars cannot refer to the solutions that the old social economy supplied to national states because the context has changed. But the method and the approach can be the same because it is still valid. The conceptions of solutions to bad distribution of income are seldom conceived out of pure theoretical economics. People should return to the practical science approach and the legal approach to political economy of the early fathers of Social Catholicism.

The conception of new institutions should be based on a view of man and his needs and also the *idea of feasible progress*. That idea of progress has to be framed on the old concept of common good (Mastromatteo & Solari, 2013). Once reinvented, the progress and the legal position of all participants in each region should be analysed, relative to the dignity of each one and of the progress that needs to be achieved. The balance, rights and obligations are always achieved by some rule or institution. As an example of a new idea of this kind, refer to the 1/12 compulsory ratio between the least-paid and the most-paid employee in an organization. In this way, one can act in a way to recognize the rights of those in need and shape the behaviour to align to the achievement of consistent results for the whole economy. Education in this process remains the most important policy. Reforming feasible ways of actualizing human progress can be achieved only by internalizing the common objectives. The search for the new *Ordo* is simply a change in what is recognized as rights and duties.

### VIII. Conclusion

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In this article, the genesis and the external conditions that made social Catholicism successful in continental Europe was discussed. The institution building that solved the social question consisted of a legal framework that was able to achieve a respect for individual positions in the labour market. That helped obtain a relatively horizontal distribution of income that matched the increasing industrial production. However, within the frame of the nation-state it was easier to organize communities and gain wider solidarity. People today bear all the costs of the nation-state without being able to enjoy its benefits. Therefore, they suffer from stronger tendencies to global homogenization and to inequality.

Nonetheless, today there is also the difficulty to “frame” the problems that are being faced. It is difficult to find actual action principles in an unbounded space. Furthermore, abstract principles are not needed, but simple strategies of practical organization, that is, the architecture of institutions to cope with globalization. The newly conceived institution of corporate social responsibility finds difficulties to diffuse and be effective. Alternatively, people have to reinvent the notion of community and reciprocity to be effective in a global world. It should be understood how to define and structure communication among communities. Finally, solidarity should be reinvented and its relationship with competition according to an unbound economic space.

In this difficult task, this author argues, that the *practical science* approach<sup>116</sup> remains valid in addition to the *legal view of society* that characterized ancient Social Catholicism. As a consequence, there is plenty of room for research in the field of

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<sup>116</sup>See Crespo (2013) for a contemporary discussion.

social economics elaborating new ideas on institutions promoting a humane economy for the globalized world. It is research that is oriented to policy making and institution building to fit the Catholic vision of a good life in a new open context.

In regard to this process of institutional change, Europe and the United States are apparently out of ideas or too focused on their short-term problems. It is the right time for Latin America to propose important contributions.

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