

The Common Good and the Market Economy

El Bien Común y la Economía de Mercado

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Abstract: The Social Doctrine of the Catholic Church leaves place for different interpretations of capitalism, free market, and state interventions. Although one cannot find there the answer to the question of what is the proper economic system, the basic principles of the Catholic Social Teaching (human dignity, common good, the universal destination of goods, respect for private property, subsidiarity) provide a framework that limits the scope of possible solutions to this problem. In this paper, we defend the thesis that free market institutions are perfectly in line with the main principles of the Catholic Social Teaching if the right moral framework is in place. To support this point of view, we refer to the Austrian economic theory.

Keywords: catholic social teaching; common good; market economy; social encyclicals; virtue.

Resumen: La Doctrina Social de la Iglesia Católica da lugar a diferentes interpretaciones sobre el capitalismo, el libre mercado y la intervención estatal. Aunque uno no puede encontrar en ella la respuesta a la pregunta de cuál es el sistema económico apropiado, los principios básicos de la Doctrina Social de la Iglesia (la dignidad humana, el bien común, el destino universal de los bienes, el respeto por la propiedad privada, la subsidiariedad) proveen un marco que limita el rango de las posibles soluciones a este problema. En este artículo, defendemos la tesis de que las instituciones del libre mercado están perfectamente en línea con los principios de la Doctrina Social Católica si el marco moral es el adecuado. Para sostener este argumento, nos referimos a la teoría económica austriaca.

Palabras clave: doctrina social católica, bien común, economía de mercado, encíclicas sociales, virtud.

1. INTRODUCTION

The current position of the Catholic Church regarding capitalism and the market economy is one of cautious support. While capitalism and free markets have not in themselves been condemned (QA 101)¹ and their efficiency to meet consumer demands has been acknowledged (CSDC 347, CA 34), the Church has also called for "reasonable regulations of the marketplace" beyond market mechanisms (CCC 2425). Indeed, those notions sometimes are not used interchangeably and different thinkers attach to them different meanings, or at least they have different connotations. For instance, socialists or communists such as Karl Marx refer to capitalism as an economic system in which capital tends to be concentrated in fewer hands. In turn, some moral philosophers relate capitalism to materialist ethics. Finally, capitalism is very often just identified with "free markets" or "market economy". Pope John Paul II seemed aware of this distinction, and thus he wrote:

If by "capitalism" is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, even though it would perhaps be more appropriate to speak of a "business economy", "market economy" or simply "free economy". But if by "capitalism" is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework that places it at the service of human freedom in its totality, and which sees it as a particular aspect of that freedom, the core of which is ethical and religious, then the reply is certainly negative (CA 42).

Indeed, John Paul II's positive comments refer to "capitalism" as free markets or simply market economies, while his negative assertions regard "capitalism" as an economic system based on materialist ethics. Overall, his stance is neither an outright condemnation of the market economy nor an absolute praise of all its properties. While recognizing its value as a tool to meet consumer demands and advance material welfare, he also warns about the elevation of the economic order above the juridical, religious, and moral ones. This position is an echo of previous social encyclicals: Pius XI calls for market competition to be "kept within certain limits" and states that it "cannot

¹ In this paper we use the standard notation for ecclesiastical documents. See table 1 in appendix A for the abbreviations used.

direct economic life” (QA 88), while earlier Leo XIII praises the Church for “reaching the hearts of men”, putting a limit to self-interest and providing them with a sense of duty (RN 26).

One of the proposed limits of the market rationale concerns labor relations. While free and voluntary agreement as well as labor productivity are recognized as requisites of considering a labor contract just (RN 47), it is by itself insufficient (RN 46, QA 69, MM 18, CA 8) and other considerations must be taken into account, such as the maintenance of the whole household (QA 71, MM 71, LE 9, CA 8), the rightful rest of workers on holy days (RN 41, CA 9, 15) and, most importantly, the possibility of saving and acquiring property (RN 45-48, QA 59, MM 112-113).

As opposed to the market economy, the Socialist alternative has been fully condemned in social encyclicals. Leo XIII states that Socialism “must be utterly rejected” (RN 15), Pius XI says that “no one can be at the same time a good Catholic and a true Socialist” (QA 120), and John XXIII declares that “no Catholic could ever subscribe even to moderate Socialism” (MM 34). Indeed, Socialism works against those which Socialists claim to protect, for they deprive workers of any property they could acquire (RN 5), deprives individuals and families of their rights against the State (RN 12-14), and causes general impoverishment (RN 15). More deeply, Socialism doesn’t see any other social good than material well-being (QA 118-120, MM 34) and reduces the individual to a mere cog in a machine (CA 14). Class struggle is outright rejected and the importance of class cooperation is emphasized, for “capital cannot do without labor and labor cannot do without capital” (RN 19). Labor, thus, cannot be the only rightful claimant of income (QA 53).

Some market-oriented Catholic thinkers have voiced their opinions on the current state of the Social Doctrine. Thomas E. Woods (2003), for instance, has been critical of some of the encyclicals’ comments on the functioning of labor markets, addressing that statements on economic science are outside the realm of the Magisterium. Others like Denis O’Brien (2014) and Fr. Robert A. Sirico (2014) have sought more conciliatory positions on the matters of subsidiarity and solidarity and welfare respectively. However, the relationship between the market economy and the Common Good as understood by the Social Doctrine of the Church deserves further analysis. Hence, in this paper, we seek reconciliation between the concept of market economy and principles of Catholic social doctrine, based on insights from economic science. At the same time, we notice how state interventions can actively work against it.

In Section 2, we define the Catholic concepts of the Common Good and human dignity. Section 3 focuses on the Church's teachings on the universal destination of goods, private property rights, and the principle of subsidiarity. Section 4 is dedicated to the issues of social order, economic problem, and the market economy. Finally, Section 5 explains why the necessary moral and ethical regulations to bring a virtuous society need not come from the State.

2. THE COMMON GOOD AND HUMAN DIGNITY

The *Compendium of the Social Doctrine of the Church* defines the Common Good as “the sum total of social conditions which allow people, either as groups or as individuals, to reach their fulfillment more fully and more easily” (CSDC 164, CCC 1906). While not being a precise definition, the next paragraph of the Compendium clearly states what the Common Good is not: “The common good does not consist in the simple sum of the particular goods of each subject of a social entity” (CSDC 165). In other words, the Common Good must not be understood as we commonly understand “social utility” in Welfare Economics, i.e., as the aggregation of all the individual utilities in society.

To have a clear picture of what the Common Good is, we must first understand some basic anthropological and theological concepts in the social teachings of the Church. Indeed, the Social Doctrine is primarily concerned with the nature of man and his transcendental purpose, from which the guidelines for a good social life are deduced (Zięba 2010). These concepts are the dignity of the human person and the universal destination of goods.

The dignity of the human person is based on his status as bearer of the image of God, or *Imago Dei*. Indeed, as Scripture says, man was created after God's own image (Gen 1:27)², and was given the capability “of self-knowledge, of self-possession and of freely giving himself and entering into communion with other persons” (CSDC 108). Most importantly, he is given the grace to enter into a covenant and relationship with his Creator. Communion with God is thus man's ultimate calling, and he, by his own nature as created by an all-good being, is ordered towards this very purpose (CSDC 109).

The human person, however, does not live in isolation but is naturally a social creature. Man's social nature is a reflection of God's triune nature, for

² Every biblical reference we have used in this paper follows the *New Revised Standard Version Catholic Edition*.

the Trinity itself is a community. Man is inserted in society, “understood as the sum of the relationships between individuals and intermediate social groupings, which are the first relationships to arise and which come about thanks to ‘the creative subjectivity of the citizen’” (CSDC 185). It’s important to emphasize that society isn’t formed just by the interconnection between individuals, but also by the groups that organically form as man has common interests with his peers. Given the diversity of man’s talents and tastes, and given that man’s needs exist in a hierarchy, in which the eventual communion with God stands at the top, social organizations, which are formed by the free association of different people with common grounds, are also bound to be diverse and hierarchical.

With this picture in mind, we can understand the definition of the Common Good given by the Church. A “good” is that which is enjoyed or expected to be enjoyed in the future. It can be an end in itself (a *final* good) or a means to that end (an *instrumental* good). Social organizations exist as instrumental goods, for they are at the service of the human person for his flourishing instead of existing for their own sake. These goods are “common”, for they are indeed shared by multiple individuals for their own flourishing, but *the* Common Good has a distinctive character that separates it from the rest. It is not a final good, for it is instrumental so that every person may have their needs, both material and spiritual, met (CSDC 170); but it isn’t a transitory good either, one that disappears once society is perfected. It is rather a *constructive* good, for it represents the social structure, formed by all the social organizations and conditions, that make possible each and everyone’s fulfillment and communion with God, and “only together is it possible to attain it, increase it and safeguard its effectiveness, with regard also to the future” (CSDC 164).

3. THE BASIC PRINCIPLES OF THE SOCIAL TEACHING OF THE CATHOLIC CHURCH: THE UNIVERSAL DESTINATION OF GOODS, PRIVATE PROPERTY RIGHTS, AND SUBSIDIARITY

The Church holds that the universal destination of goods is the most fundamental and natural law. Roughly speaking, it says that all resources are created by God to serve all people, and therefore every human person has a right to satisfy his basic needs. This principle has been formulated already in the first centuries of Christianity, and forms the basis of the social teaching of the Catholic Church. Nevertheless, the Church assigns a positive role to private

property (CSDC 171–184). However, its position on this issue is rather refined, and requires a subtle interpretation.

In the context of private property, theologians often notice that one of God’s first commands to man was to “fill the earth and subdue it; and have dominion over the fish of the sea and over the birds of the air and over every living thing that moves upon the earth” (Gen 1:28). The Catholic Church underlies that by use of the gift of intelligence, man is capable of working the land and transforming it according to his ideas, as well as to enjoy the fruits of its labor. “In this way, he makes part of the earth his own, precisely the part which he has acquired through work; this is the origin of individual property” (CSDC 176)³.

Although Leo XIII stated that “Private ownership [...] is the natural right of man” (RN 22), the Church emphasizes that “Christian tradition has never recognized the right to private property as absolute and untouchable” (CSDC 177). In fact, the right to private property should be subordinated to the principle of the universal destination of goods, and therefore should be regarded rather as a means, and not as an end in itself (CSDC 177).

In Catholic theology, we can also find opinions to the effect that the right to private property is not a natural right, but nevertheless, it is necessary for the Common Good. It was already St. Thomas Aquinas who said that “the ownership of possessions is not contrary to the natural law, but an addition thereto devised by human reason” (ST II-II:66:2). In the eyes of Aquinas, private property rights are indispensable for at least three reasons. First, every man cares more about his own resources than common resources. Secondly, it allows people to act in a more orderly way, which means that it is clear who is responsible for taking care of a particular thing. Third, it reduces the number of possible conflicts over the use of resources and therefore leads to greater peace in society (ST II-II:66:2).

Accordingly, Aquinas approves the right to private property as a proper basis of the social order. At the same time, he recalls the moral duties of those who own economic goods. No one should be attached to temporal goods, meaning that everyone should be ready to share them with those in need. Aquinas also notices that it is God who is the ultimate owner of everything. Hence, everyone should use his resources in accordance with God’s will (ST II-II:66:2).

³ This is reminiscent of John Locke’s principle of original appropriation, by which property originates from man “mixing his labor” with original resources.

It seems that an especially illustrative example of the relation between the principle of the universal destination of goods and private property rights can be the case of urgent need. According to Aquinas, an extreme need makes goods cease to be private and become common property. Hence, there is no theft (and no sin), when a man takes something from someone else in order to survive. As Doctor Angelicus put it: “It is not theft, properly speaking, to take secretly and use another's property in a case of extreme need: because that which he takes for the support of his life becomes his own property by reason of that need. [...] In a case of a like need a man may also take secretly another's property in order to succor his neighbor in need” (ST II-II:66:7).

This teaching has been confirmed by the ordinary Magisterium of the Church. It can be found, for instance, in Leo XIII. The pope says:

no one is commanded to distribute to others that which is required for his own needs and those of his household; nor even to give away what is reasonably required to keep up becomingly his condition in life [...] But, when what necessity demands has been supplied, and one's standing fairly taken thought for, it becomes a duty to give to the indigent out of what remains over. “Of that which remaineth, give alms.” (Luke 11:41) It is a duty, not of justice (save in extreme cases), but of Christian charity – a duty not enforced by human law. But the laws and judgments of men must yield place to the laws and judgments of Christ the true God, who in many ways urges on His followers the practice of almsgiving – “It is more blessed to give than to receive” (Acts 20:35) (RN 22)

To sum up, the Church emphasizes that except in cases of extreme need, the sharing of goods is only a requirement of mercy, not justice. Therefore, in normal situations nobody has a right either to steal or to force anyone to give up his goods. At the same time, the Church teaches that God's providence for man is abundant and enough to be enjoyed by all mankind⁴. However, the enjoyment of earthly resources isn't an end in itself, but a substance means to aid man to attain his higher purpose, communion with God (CSDC 171). Man is thus not to exclusively focus on his primary, earthly needs, for he will never be wholly fulfilled by those; but to move further and fulfill his transcendental calling.

⁴ This is not to say that economic scarcity isn't real. In Economics, the scarcity of one resource is always *relative* to its demand, or to man's needs. In absolute terms, however, natural resources are abundant and can be put to use to the benefit of all men by the use of man's intelligence, work, and planning, as we will see.

The last point to be discussed in this section is the principle of subsidiarity. Catholic social teaching has developed it throughout the last centuries. The term in question was coined by Pope Pious XI in *Quadragesimo Anno* when he stated the “most weighty principle” that “remains fixed and unshaken in social philosophy”:

Just as it is gravely wrong to take from individuals what they can accomplish by their own initiative and industry and give it to the community, so also it is an injustice and at the same time a grave evil and disturbance of right order to assign to a greater and higher association what lesser and subordinate organizations can do. For every social activity ought of its very nature to furnish help to the members of the body social, and never destroy and absorb them. (QA 79)

While Pious is the first Pope to explicitly formulate this principle, traces of it can be found in the encyclical of his predecessor Leo XIII *Rerum Novarum* (RN 12-14). Leo XIII defends this right on the grounds of the right to free association, in which public authorities should watch over their ability to freely function in society, but simultaneously forbids them to interfere in their internal affairs (RN 55).

According to this principle, no higher-level body may intervene in the matters of lower-level bodies if no help is needed. The principle of subsidiarity, however, does not recommend inaction on the part of higher organizations, rather, it gives them – as the name implies – a subsidiary role, that is, to help those lower-level bodies fulfill their duties and goals only insofar as they are unable to meet them by themselves (CSDC 185–187).

Subsidiarity can be regarded as a central concept of the Catholic Social Doctrine. It’s proper application is supposed to reduce the costs of social interactions, increase flow of information, and expand individual liberty. It allows different social groups and political bodies to interact – compete and cooperate – without interventions of the central authority.

4. SOCIAL ORDER, ECONOMIC PROBLEM, AND THE MARKET ECONOMY

As far as social order is concerned, there are at least two questions that need to be answered: What economic goods should be subject to property rights, and how should these rights be distributed among members of society? Catholic answers to these questions should be of course based on heretofore described principles.

The Common Good cannot *by definition* be found in isolation, for it is “the good of all people and of the whole person” and man “cannot find fulfillment in himself, that is, apart from the fact that he exists ‘with’ others and ‘for’ others” (CSDC 165). Moreover, all man’s efforts should respond to his transcendental calling. The social problem we thus face is how to put everyone’s individual talents and resources to the good of society so that each person might be fulfilled and ordered towards God.

The basic economic problem is of no less importance in this context. It sounds: how do we use all the resources and human talents in a coherent plan that may satisfy the desires of all inhabitants of society, given that economic knowledge is incomplete, dispersed, and subjective (Hayek 1948a)? The answer to this question dwells between two ideal types: a centrally planned “top-down” approach, also referred to as the Socialist alternative; and a decentralized “bottom-up” approach, or a market economy⁵.

The problem gets more complicated when we consider the heterogeneity and diversity of modern societies. While the common interest of all human beings is the eventual communion with God, the means by which each individual finds fulfillment in society exists in a broad spectrum, for every man has different talents, abilities, and tastes, and therefore also has different needs and desires. The complexity of the matter is aggravated when we take into account that each individual has specific knowledge of their respective field of activity, which goes beyond the scientific or technical (what we might call “theoretical”) knowledge. This specific knowledge is what is sometimes called “know-how”, or that which can only be learned by engaging in the activity. This knowledge has a *subjective* nature inasmuch it can only be apprehended by the individual partaking in the activity, and cannot be formalized and explicitly communicated to other people:

We need to remember only how much we have to learn in any occupation after we have completed our theoretical training, how big a part of our working life we spend learning particular jobs, and how valuable an asset in all walks of life is knowledge of people, of local conditions, and of special circumstances. To know of and put to use a machine not fully employed, or

⁵ It must be emphasized that these two contraries are ideal types we are using for theoretical purposes. The contrast need not be between a pure free market and a centrally planned economy so much as to an economic order that is organically constructed from the bottom or designed from the top. As we will see throughout this section and in section 5, the Social Doctrine is compatible with a model in which social institutions independent from the State play a strong role in regulating the conduct of individuals.

somebody's skill which could be better utilized, or to be aware of a surplus stock which can be drawn upon during an interruption of supplies, is socially quite as useful as the knowledge of better alternative techniques. And the shipper who earns his living from using otherwise empty or half-filled journeys of tramp-steamers, or the estate agent whose whole knowledge is almost exclusively one of temporary opportunities, or the arbitrageur who gains from local differences of commodity prices—are all performing eminently useful functions based on special knowledge of circumstances of the fleeting moment not known to others. (Hayek 1948b)

This knowledge is dispersed, in the sense that every person in society has “what we could call ‘atoms’ or ‘bits’ of the information which is globally generated and transmitted at the social level, but which, paradoxically, only he or she possesses, i.e. which only s/he consciously knows and consciously interprets” (Huerta de Soto 2009, 65). These small fragments of specific knowledge cannot be gathered by a central authority, for such authority cannot even have access to it unless he himself engages in the productive endeavor to have a first-hand experience of the matter.

For this knowledge to be fully used for the benefit of society, it is primordial that in the first place, those who are closer to the performance of the professional activity are those who plan and manage their respective resources and skills. Those craftsmen who have expertise in their own fields may organize themselves in associations such as businesses or guilds so that each member has the tools and training to make the most perfect use of their talents.

Thus far we know how individuals organically assemble into associations with their peers and why it is primordial that these organizations and individuals are the most suited to micro-manage the knowledge, resources, and skills at their disposal. What is yet to know is how can these organizations and individuals share their small nuggets of knowledge with other organizations and individuals. Indeed, as this knowledge is tacit and can only be apprehended by those who work directly in the specific field, it cannot be formalized or replicated for other individuals to save or gather, which complicates the matter of coordinating with them.

According to Friedrich von Hayek (1948b), to resolve the economic problem, the dispersed and tacit knowledge needs to be available to all the actors involved in the process of production. The Austrian economist argues, however, that not all this knowledge must be apprehended by other actors for coordination to occur. Rather, all the producers and consumers need to know

is the relative scarcity of the resources and skills, each one to the other. This is indeed the function of the “price mechanism”: to signal how scarce is each commodity relative to its demand and to other commodities. In order for economic calculation based on price mechanism to be possible, a few necessary conditions must be met: the existence of private property of both consumer and productive goods, the social division of labor, money, and market competition (Mises, 1990).

The existence of capital is necessary for any economic system to endure in the long run, for no economic calculation can exist without it. It is the private property of the means of production, and the fact that they can be traded in the market, and thus be appraised by entrepreneurs, which enables them to account for their costs of production (Mises 1990). Furthermore, by holding private property over production resources, man can engage in judgment, understood as “the exercise of a particular skill, namely that of dealing successfully with resource allocation decisions under uncertainty” (Foss and Klein 2012, 79). The uncertainty that entrepreneurs face in market conditions is that of an epistemic unknowability of the future, a range of possible outcomes whose probability cannot be ascertained, classified, or computed. Only by the use of man’s creativity and his subjective experience on the endeavor he’s partaking in can he “look into the future” and make predictions about the future state of the market. This apprehension over the present and future conditions of the market can only be done if the owner of the scarce resources is the ultimate decision-maker over where they will be headed.

By having a common denominator, money, entrepreneurs can appraise how available each resource is for their respective plans of production. Furthermore, by anticipating future prices, entrepreneurs decide, according to their own judgment, in which line of production each resource should be placed, envisioning a potential monetary gain. We thus have a second signal produced by the price mechanism: *profit and loss*. The profit (loss) of an enterprise is measured by the positive (negative) spread between the selling price of the final product and the purchasing price of the resources employed for its manufacture. Indeed, profits signal that the consumer needs of society have been satisfied by using the just amount of resources, leaving the rest to other productive endeavors⁶, while losses show that the enterprise has been

⁶ It is more fitting to say that the wants or desires of society have been satisfied, for the wants or desires of an individual’s need not be equivalent to what they really need. For the sake of simplicity, however, we use these words interchangeably. In section 5 we lift this assumption.

wasteful, and it is not justified to employ society's resources in that particular plan.

The legitimacy of profit has been acknowledged by the Church, most notably by Pope John Paul II:

The Church acknowledges the legitimate role of profit as an indication that a business is functioning well. When a firm makes a profit, this means that productive factors have been properly employed and corresponding human needs have been duly satisfied. (CA 35)

Likewise, Pious XI asserts that:

Those who are engaged in producing goods, therefore, are not forbidden to increase their fortune in a just and lawful manner; for it is only fair that he who renders service to the community and makes it richer should also, through the increased wealth of the community, be made richer himself according to his position, provided that all these things be sought with due respect for the laws of God and without impairing the rights of others and that they be employed in accordance with faith and right reason. (QA 136)

This is, of course, not to say that profit-making should be the only guide for business operations. Far from it, businesses and associations should abide by moral principles and natural law, as we will see in the next section. For now, let us move further to the last piece needed for plan coordination to be successful in society: the right to private property.

According to the Church, the right to private property should be extended not only to consumer goods, but to the means of production as well. To the Socialist contention of doing away with private property over capital, Leo XIII replies that "they would rob the lawful possessor, distort the functions of the State, and create utter confusion in the community" (RN 4) and that "man not only should possess the fruits of the earth, but also the very soil, inasmuch as from the produce of the earth he has to lay by provision for the future" (RN 7). More explicitly, John Paul II stated:

If by "capitalism" is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirma-

tive, even though it would perhaps be more appropriate to speak of a “business economy”, “market economy” or simply “free economy”. (CA 42, emphasis added)

To be sure, problems arise when property is highly concentrated among a few individuals. When only a few owners hold control over most of society’s productive resources, it means that those few owners are the sole commanders of the whole economy. They have “vertically integrated” all or at least the most important industries. In such a situation, the owners are rendered incapable of employing their property in a way that is beneficial to society and to themselves. Indeed, a firm may vertically integrate two or more industries *if a market for the goods sold by these industries exists outside the firm*. If a company owns the production of refined oil and natural gas, the owner of the company cannot calculate the profit of the production of natural gas *by looking at its own expenses*, for there has been no purchase of the refined oil, as he is in charge of its production as well. By looking at the market prices of the refined oil sold elsewhere, he can, however, “calculate” its costs as if he himself was purchasing it (Rothbard 2009, 610–12).

The owner cannot engage in such an endeavor, however, if there is no market outside the firm, for he wouldn’t have any market price to guide his managing decisions. Akin to a Socialist planner, the owner of a large firm or guild would be unable to rationally price his productive resources, engage in economic calculation and, therefore, know if he’s engaging in a productive or wasteful enterprise:

The reason for the impossibility of calculation under socialism is that one agent owns or directs the use of all the resources in the economy. It should be clear that it does not make any difference whether that one agent is the State or one private individual or private cartel. Whichever occurs, there is no possibility of calculation anywhere in the production structure, since production processes would be only internal and without markets. (Rothbard, 2009, 613, emphasis in original)

It is then a menace to the Common Good that the productive resources of society came to be owned by a small group of owners. Economic inefficiencies aside, concentrated or centralized ownership is likely to lead to abuses over the workforce. This was a problem so pervasive in the 19th cen-

tury that it merited its own encyclical, Pope Leo XIII's *Rerum Novarum*. Indeed, contrary to the Socialist collective ownership of the means of production, the Pope favored a widespread and "distributed" ownership of property:

If a workman's wages be sufficient to enable him comfortably to support himself, his wife, and his children, he will find it easy, if he be a sensible man, to practice thrift, and he will not fail, by cutting down expenses, to put by some little savings and thus secure a modest source of income. Nature itself would urge him to this. We have seen that this great labor question cannot be solved save by assuming as a principle that private ownership must be held sacred and inviolable. The law, therefore, should favor ownership, and its policy should be to induce as many as possible of the people to become owners. (RN 46)

We thus see that this widespread distribution of property need not be by employing the State power of taking from the current owners and giving it to the non-owning class but should rather be done by the industry of the workmen and the charity of the employer⁷.

5. VIRTUE, THE STATE, AND THE LIMITS OF THE MARKET

We now see how property rights are part of the "sum total conditions" that contribute to the Common Good. By being permitted to manage his resources according to his God-given intelligence and creativity, and associate with his peers to make the best use of his innate skills, and by having the price mechanism to guide his productive endeavor in the way that most benefits society's needs, man can be fulfilled while simultaneously contributing to society's well-being.

This, however, is an incomplete vision of the Common Good. Indeed, it takes more than material well-being to make an orderly society. The Church's rejection of "capitalism" is a rejection of the placement of economic improvement as the ultimate Good of a society, a place that only belongs to God. To quote the second half of John Paul II's last quote:

⁷ Rothbard (2009, 613-614) argued that this lack of economic calculation supposes a natural "ceiling" to the firm's growth. When firms vertically integrate industries to a point that they can no longer engage in economic calculation, it is in their interest to sell the "surplus" of industries they have acquired back to a point in which they can engage in economic calculation again.

But if by “capitalism” is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality, and which sees it as a particular aspect of that freedom, the core of which is ethical and religious, then the reply is certainly negative. (CA 46, emphasis added)

John Paul calls the philosophy underlying this type of capitalism “economism”, a sort of “practical materialism” that is historically prior to the theoretical development of philosophical materialism. Economism can be defined as the anthropological viewpoint that defines human labor according to its economic purpose (LE 13). Economism strips man of his richness and individuality and turns him into an anonymous force defined by his function in the economic system. He becomes a mere engine inside a mechanical apparatus, putting the human person at the service of the system instead of putting the system at the service of man’s integral freedom and fulfillment. This mechanical understanding of social reality is not avoided by Marxian dialectical materialism, for it too considers man to be a byproduct of his economic environment:

In dialectical materialism too man is not first and foremost the subject of work and the efficient cause of the production process, but continues to be understood and treated, in dependence on what is material, as a kind of “resultant” of the economic or production relations prevailing at a given period. (LE 13)

Let us remember that man’s ultimate calling is to be in communion with God, and that every other good is a means to this very purpose and, therefore, shouldn’t take its place. The market is not an end in itself, thus, but a constructive means to orient man in his productive enterprise and facilitate the material means for his final fulfillment: it should not by any circumstance overextend itself and work against this principle. John Paul II warns against this idolization of the market:

Here we find a new limit on the market: there are collective and qualitative needs which cannot be satisfied by market mechanisms. There are important human needs which escape its logic. There are goods which by their very nature cannot and must not be bought or sold. Certainly the mechanisms of the market offer secure advantages: they help to utilize resources better; they promote the exchange of products; above all they give central place to the person’s desires and preferences, which, in a contract, meet the desires and

preferences of another person. Nevertheless, these mechanisms carry the risk of an “idolatry” of the market, an idolatry which ignores the existence of goods which by their nature are not and cannot be mere commodities. (CA 40)

Proper limitations to the market must then be put in place for it to be ordered toward man’s complete fulfillment. These limitations are the proper and moral use of man’s freedom and property. Indeed, property gives man rule over the earth’s resources, but this rule is ultimately granted by God, and therefore must be in accordance with His will. The use of property is therefore limited and must be guided by upright moral behavior:

The right of property is distinct from its use. That justice called commutative commands sacred respect for the division of possessions and forbids invasion of others’ rights through the exceeding of the limits of one’s own property; but the duty of owners to use their property only in a right way does not come under this type of justice, but under other virtues, obligations of which “cannot be enforced by legal action.” (QA 47)

The limits of man’s use of his property model his behavior in the market as a consumer and as a producer. In the previous section, when discussing how private property and subsidiarity help man to properly fulfill the needs of his peers, we assumed that his “wants” were equivalent to his “needs”, but that need not be the case. While wants or desires are purely subjective, needs result from the objective reality of human nature and relate to human’s ultimate good – God himself. Oftentimes, the desires of man are contrary to his true needs and deviate him from his true purpose. Those desires do not constitute true human goods, but “apparent goods” (Kennedy 2014, 261). Examples of apparent goods that can be (and many times are) provided in the market are pornography or drugs. They can be produced efficiently by means of economic calculation provided by the price mechanism and profit and loss signals, but the final product directly opposes not only man’s spiritual calling, but also social cohesion and well-being, and therefore makes them a threat to the Common Good.

It is therefore clear that man’s right to private property and freedom can be used in a disordered way (i.e., contrary to its natural purpose). How shall this be avoided? Following the principle of subsidiarity, the responsibility of modeling one’s behavior in accordance with Virtue and the Common Good falls to the individual and the family (MM 44, 51). Man, having free

will and the capability of choice, is the first responsible for his moral conduct. He must restrain himself from vice and freely accept God's grace to be kept straight on the right path.

Of course, man cannot change his fallen nature and choose the Good by himself. He needs assistance: not only supernatural assistance (grace) but also the assistance of his environment. Primacy in this aspect should be given to the family, a "society" of its own that is prior to the State and the wider society (RN 12-15). It is in the family where a child is nurtured, educated, and encouraged to pursue Virtue, and it is his first contact with social life. For the correct nurturing of the child, however, the family must be placed in an aiding cultural environment. Culture has a key role in John Paul II's encyclicals (see Zięba 2010, chap. 4). In his view, culture is that framework in which the individual, the family, and society as a whole develop their identity and in which every single person participates. Indeed, by means of social rewards (public praise) and punishments (public ostracism), society has an effective tool to model man's behavior:

We have probably not yet discovered the best way of teaching people to live according to rules which make life in society for them and their fellows not too unpleasant. But in our present state of knowledge I am sure that we shall never build up a successful free society without that pressure of praise and blame which treats the individual as responsible for his conduct and also makes him bear the consequences of even innocent error. (Hayek 2022)

The role of safeguarding the culture from degenerating into immorality falls into each and every person with a paternal vocation, but especially on the Church, as the "mother and teacher" of all believers. She is entrusted with guarding the original teachings of Christ, the Apostles, and the Church Fathers and applying them to the moral challenges of modern societies.

Still, while social feedback is an effective mechanism for regulating moral behavior, some enforcement would be needed if the problem persists or if society is already demoralized to regulate morality by social means. We have to consider, then, whether the State has a role or not in this enforcement. Social encyclicals use three Latin terms that are usually translated as "State"⁸:

- *Civitas*, defined as "an organized community", especially "that which one belongs as a city, a state", "the persons living in an or-

⁸ We are grateful to Benjamín Santamaría for bringing this point to our attention.

ganized community, the citizens of a state” and “a state”, understood as “a city, or city and surrounding district” or “a town or district” (Oxford University 1968, 330).

- *Republica*, (“res publica”, lit. “public thing”) can be defined as “activities affecting the whole people”, “a particular item of public business”, “the welfare of the state, the public good”, “the body politic, the state (in a place specified or implied . . .)” or “a state in which all citizens participate, a free state” (Oxford University 1968, 1635)
- *Statu*, referring to the modern institution of the State, the monopoly of violence.

In *Rerum Novarum*, Leo XIII writes:

By the State [republicam] we here understand, not the particular form of government prevailing in this or that nation, but the State as rightly apprehended; that is to say, any government conformable in its institutions to right reason and natural law, and to those dictates of the divine wisdom which we have expounded in the encyclical On the Christian Constitution of the State. (RN 32, emphasis in original)

Leo is referring to his 1885’s encyclical *Immortale Dei*. This encyclical is highly critical of the enlightened ideas of government, that is, the thesis that government authority comes solely from the people without any need of or reference to God (ID 31). That the power of civil government is delegated by the people isn’t in itself contrary to Catholic social teaching and scholastic thought (see Benjamín Gonzalo 2022), but, as every authority comes from man’s natural tendency to associate, and given the inequality in man’s abilities, this authority is grounded in natural law and, thus, ultimately derives from God:

Man’s natural instinct moves him to live in civil society, for he cannot, if dwelling apart, provide himself with the necessary requirements of life, nor procure the means of developing his mental and moral faculties. Hence it is divinely ordained that he should lead his life, be it family, social, or civil, with his fellow-men, amongst whom alone his several wants can be adequately supplied. But as no society can hold together unless someone be over all, directing all to strive earnestly for the common good, every civilized

community must have a ruling authority, and this authority, no less than society itself, has its source in nature, and has consequently God for its author. (ID 3)

It is then likely that Leo (and his successors) are referring to the array of civil and political authorities (the *republica*) that form the social body of a city. This includes but is not limited to the civil government: it could be extended to family heads, ecclesiastical authorities, guild masters, and town majors. Indeed, the Pope seems fond of the old order, characterized by overlapping authorities and shared jurisdiction, as opposed to the modern monopolization of political, juridical, and even moral authority in the State. Through this monopolization, imposed in the era of the Enlightenment, the Church, which previously shared authority with the civil government(s), is now deprived of her role as moral regulator and teacher of the common people (ID 27-33). Under the guise of “protecting individual liberties”, the State takes from the civil and religious associations that organically form the body of society the authority that rightfully belongs to them, isolating the individual from any form of moral guidance. Man is confined, thus, to find fulfillment either in the marketplace or in the State, as John Paul II writes:

The individual today is often suffocated between two poles represented by the State and the marketplace. At times it seems as though he exists only as a producer and consumer of goods, or as an object of State administration. People lose sight of the fact that life in society has neither the market nor the State as its final purpose, since life itself has a unique value which the State and the market must serve. Man remains above all a being who seeks the truth and strives to live in that truth, deepening his understanding of it through a dialogue which involves past and future generations. (CA 49)

Having done away with all these organizations, the State takes itself as the moral guide of man, leaving him a spiritual void to be unsuccessfully filled with material gain. Thus the “welfare state” or, as John Paul II calls it, the “social assistance state” is born:

By intervening directly and depriving society of its responsibility, the Social Assistance State leads to a loss of human energies and an inordinate increase

of public agencies, which are dominated more by bureaucratic ways of thinking than by concern for serving their clients, and which are accompanied by an enormous increase in spending. (CA 48)

The spiritual damage that the State inflicts on society extends itself to other forms of intervention, such as monetary policy (Hülsmann 2008, chap. 12). The rise of the nation-states against the old order of intermediate political bodies was prompted by inflation, understood as the systematic debasement of money and the subsequent reduction of its value below its market-level.

Inflation spurs the growth of central governments. It allows these governments to grow larger than they could become in a free society. And it allows them to monopolize governmental functions to an extent that would not occur under a natural production of money. This comes at the expense of all forms of intermediate government, and of course at the expense of civil society at large. The inflation sponsored centralization of power turns the average citizen more and more into an isolated social atom. All of his social bonds are controlled by the central state, which also provides most of the services that formerly were provided by other social entities such as family and local government. At the same time, the central direction of the state apparatus is removed from the daily life of its wards (Hülsmann 2008, 176).

Inflation and easy-credit policies allow entrepreneurs to be indebted at low-interest rates, which prompts reckless behavior and dependence on financial institutions, for business ventures aren't run on their equity but on debt. Families as well have to face the decreasing purchasing power of money by investing their savings in financial markets or getting indebted to purchase physical assets, which incentives economism by making the general population more interested in their material needs than otherwise they would be.

The spiritual dimension of these inflation-induced habits seems obvious. Money and financial questions come to play an exaggerated role in the life of man. Inflation makes society materialistic. More and more people strive for money income at the expense of other things important for personal happiness. Inflation-induced geographical mobility artificially weakens family bonds and patriotic loyalty. Many of those who tend to be greedy, envious, and niggardly anyway fall prey to sin. Even those who are not so inclined by their natures will be exposed to temptations they would not otherwise have felt. And because the vagaries of the financial markets also provide a ready excuse for an excessively parsimonious use of one's money, donations for charitable institutions decline (Hülsmann 2008, 187).

6. CONCLUSION

In this paper, we have reviewed the Catholic Church's definition of the Common Good and how it relates to the institutions of a well-ordered market economy, that is, an economy that allows for freedom and private property ordered toward the ultimate Good by the guidance of natural law and moral authorities. We also have attempted to demonstrate that the State as an institution is harmful not only to the material welfare of the community but also to its correct moral order.

This paper doesn't attempt to be exhaustive of the whole Social Doctrine of the Church, and therefore some of its concepts have been left out; nor do we attempt either to present what the economic or political model the Church does or should endorse, for "the Church has no models to present" (CA 43). What we argue here is that a market economy can be compatible with the Church's teachings, provided all the mentioned caveats throughout this paper.

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A. APPENDIX

This paper follows the usual notation style of ecclesiastical documents (title, paragraph). For the *Summa Theologiae*, citations work as (Part-half: question: article) The abbreviations correspond to the following titles:

Table 1: Abbreviations of Ecclesiastical Documents

Abbreviation	Title
CA	<i>Centesimus Annus</i>
CCC	<i>Catechism of the Catholic Church</i>
CSDC	<i>Compendium of the Social Doctrine of the Church</i>
ID	<i>Immortale Dei</i>
LE	<i>Laborem Exercens</i>
MM	<i>Mater et Magistra</i>
RE	<i>Rerum Novarum</i>
ST	<i>Summa Theologiae</i>

All papal encyclicals can be accessed via www.vatican.va.