# Introduction

**Ursula Backhaus, Günther Chaloupek and Hans A. Frambach**

In 1891 Pope Leo XIII published the first social encyclical, *Rerum novarum*. In the preceding decades of the 19th century, several papal encyclicals had dealt with social and political problems of the time under different aspects, but *Rerum novarum* was the first encyclical in which the Catholic Church spoke out about the economic and social situation of the workers and thereby directly addressed the Social Question. With *Rerum novarum* a tradition of Catholic social theory came into being that still holds good today: in the 125 years after *Rerum novarum* almost a dozen papal social encyclicals have been issued which mirror the social, economic and political developments.

At the time when *Rerum novarum* appeared, working conditions were still grueling. Factors like dirt, noise, stench, and heat, together with poor light and lack of air, seriously impaired health. Hygienic facilities were inadequate, danger protection was minimal, and working hours were oppressive. Workers' associations and labor movements emerged and gained great popularity. In the 70s and 80s of the 19th century at the latest, the labor movement organized in trade unions and socialist parties gained such importance that no social institution could bypass the issue. An official positioning had been expected from the Vatican, which waited, however, for a long time. Late, then, but with corresponding ardor and empathy, a workers' movement emerged in the church, exemplified in the workers' pilgrimages

U. Backhaus (✉)
Institute for the State and the Social Sciences, Bonn, Germany
e-mail: ursula_backhaus@yahoo.de

G. Chaloupek
Austrian Chamber of Labor, Vienna, Austria
e-mail: guenther@chaloupek.eu

H.A. Frambach
Schumpeter School of Business and Economics, Faculty of Management and Economics, University of Wuppertal, Wuppertal, Germany
e-mail: frambach@wiwi.uni-wuppertal.de



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to Rome of 1887 and 1889. Pope Leo XIII addressed the pilgrims and expressed his sympathy with them, emphasizing the need for state intervention to improve their conditions. In 1887 several Catholic study circles dealing with the social questions of the time petitioned Pope Leo for a social encyclical. Their wish was fulfilled and suggestions and opinions sought on this subject throughout the world. In the end it was public pressure that led to the publication of *Rerum novarum*.

From the perspective of economic theory the first social encyclical appeared against the background of an ongoing debate about the advantages and disadvantages of capitalist and socialist economic systems that would recur in further encyclicals. If, on the one hand, capitalism was more efficient as an economic system, there were adverse social consequences which called for remedy. Whereas socialism aimed for a fundamental change of the economic system, the church took a middle course between capitalism and socialism.

The First World War left Europe in a serious crisis. The miseries caused by war and its consequences confronted the nations of Europe and the world with new challenges. When the war had ended, the demand of workers and their political parties for participation in the political process could no longer be ignored by the prevailing governments. A wave of social legislation swept through Western and Central European countries which brought with them a significant advancement towards a welfare state. The search for compromise generated various middle courses between economic capitalism and socialism. In the East, the course of events took a different turn. After the October Revolution of 1917 a socialist economic system was established in Russia which claimed to be wholly tailored to the interests of the workers.

After a brief period of economic stabilization, the Great Depression of the 1930s again threw the capitalist system into a deep crisis, to which parliamentary democracy fell victim in Germany and Austria. In the democratic countries, political and economic debates resumed about how to overcome the deficiencies of capitalism.

This was the situation in which the second social encyclical, *Quadragesimo anno*, was published by Pope Pius XI in 1931 (i.e. 40 years after *Rerum novarum*). It extended the perspective from the labor question to the more general analysis of the economic system, placing special emphasis on the role of private property. Private property, it argued, provided an incentive for performance, because the acquisition of property encouraged individuals to foresight and careful planning and served as a life insurance, e.g. for retirement provision. At the same time, private owners of capital and land should be obligated to responsible treatment of their workers and dependents. Also, the distribution issue depended on private property, because as long as the distribution of income and assets was excessively unequal it would arouse discontent, disturbance and strife. The distribution issue had systemic relevance because it was crucial for the sustainability of the capitalist system. The authors of *Quadragesimo anno*, nevertheless, suspected the danger of granting real entitlements to the individual against the state. This might, they thought, put the principle of individual responsibility at risk, and at the same time overwhelm the state with obligations toward its citizens. It was a warning against developments

that might lead to a welfare state in the wake of social individualization processes, an obvious contradiction to the principle of subsidiarity introduced in this encyclical. As a proposal for a solution a third way was suggested. This entailed the reduction of the existing unequal distribution and polarization between social classes on the one hand, and a social revaluation of industrial workers and professions. As an alternative to existing capitalism, *Quadragesimo anno* envisaged a "corporatist" system, based on the concept of "professional order", as opposed to the class society of existing capitalism. Free competition was not believed capable of steering the market successfully, so regulatory intervention in the economy, governed strictly by the idea of social equity, would inevitably be required. Fascist political systems in Italy and in Austria claimed support for themselves from the concept of corporatism as proposed by *Quadragesimo anno*.

The Second World War brought immense suffering and misery. With its end, the political, social and economic structures of the world changed yet again. Europe lost political importance, the USA and the Soviet Union advanced to the position of global superpowers. However, the world also began to grow together, with the emergence of institutions such as the UNO, the International Monetary Fund (IMF), the World Bank and the OEEC (later OECD) for Western industrialized countries. Social equity was widely accorded the status of a basic right. Schemes of social security were extended and upgraded. The modern welfare state was built up on the basis of sustained economic growth in the "golden age" of post-war prosperity (1950–1975).

In Germany the social market economy experienced its prime. However, although the mechanisms of allocation and control of the market were meaningful, the social market economy, as a concept of order, had both an economic and a sociopolitical impact. It envisioned a market-based economy extended by a guiding "social idea", which brought together the different values perceived as existing in society. Here, Catholic social doctrine was used by the idea of the "social irenic", and this principle of reconciling interests—which involved the consideration and assessment of alternative social and economic conditions—flowed into the concept of the social market economy. The foundation of this concept in the higher perspective of the values of Christian faith was, however, decisive; for the economy was seen as only one aspect of human existence and not of exclusive significance.

Pope John XXIII published two social encyclicals in quick succession: *Mater et Magistra* in 1961 and *Pacem in terris* in 1963. He named social realities more directly than ever, discussing the organization of work processes, improvement of the quality of work, the relationship between employers and employees, employee involvement etc. The relationship of the industrial nations to the developing countries was mentioned in detail for the first time: wealth and material prosperity on one side, hunger and misery on the other. Closer cooperation for the support of the poor was demanded, and the great powers were called upon to stop the arms race and cut back their military budgets. The idea of the common good was defined anew: in Catholic social theory it no longer described only the welfare of a nation or its people; from now on it covered the whole world and the welfare of all mankind.

With the third major social encyclical, *Populorum progressio* of 1967, it became definitively clear that the social question had changed. Once used as a paraphrase for the situation of the working classes in the advancing industrial nations, it now expressed a global phenomenon. The world, it was stated, belonged to all its people, and no nation had the right to live at the expense of others. The world would be richer and more just if the wealthy would take account of the poor.

A phase of economic stagnation appeared again in the 1970s and 1980s, and with it the problems of underdeveloped countries and of income distribution between the richest and poorest countries intensified. Together with stagnating growth, high rates of inflation and growing unemployment doubts arose as to whether the state could provide enough growth impulses and high levels of employment with the instrument of expansive fiscal policy. Pope John Paul II published three social encyclicals. In *Laborem exercens* (1981) the working person again became the focus of consideration—an aspect to which the disturbances in the Eastern-bloc countries and the foundation of the Polish trade union movement *Solidarność* contributed. The central theme was now extended from purely economic aspects, such as a just wage, to the "dignity of work". Capitalism required urgent correction and comprehensive reform, and in *Sollicitudo rei socialis* (1987) John Paul II made the development concept virtually synonymous with peace, emphasizing social inequality as a danger for the absolute value of world peace. The industrial nations took great responsibility for the poverty in the world; real improvement could only occur if people developed and showed a deeper understanding of existing world problems; it must be clearly recognized that material consumption did not suffice for happiness, and that profit and lust for power were to be found not only on an individual, but has also on a national level.

At the beginning of the 1990s the Soviet Union dissolved; socialism seemed at an end, and this radical change was largely achieved nonviolently. In his third social encyclical, *Centesimus annus* (1991), John Paul II warned the putative "winners" (i.e. the western industrial countries) of arrogance. In developing structures of "national safety" and expanding state power, they might well damage liberal values, and a situation might arise embodying what socialism was always reproached for. The encyclical exposed an exclusive focus on the economic superiority of the market over a planned economy as potentially reducing the human being to an economic instrument and human life to the satisfaction of material needs: totalitarianism and authoritarianism also exist in capitalist and market-based systems, and democracy itself could run into danger.

In 2009, amidst the global financial crisis and the ensuing economic crisis, Pope Benedict XVI published the social encyclical *Caritas in veritate*. With astonishment it was recognized that after decades of economic liberalization the states most acutely involved corrected the undesirable development of the economy at enormous financial expense during the financial crisis, the economy itself claiming astronomical state aid, but the burdens being financed by the general public. Benedict allotted responsibility for the failure neither to the market nor to the economic system as such—hence, not to abstract mechanisms—but to the persons acting within them. The dependence culture of many people in rich states was

considered totally exaggerated, and the encyclical insisted not only on compliance with liberties and rights, but also on social obligations—i.e. on responsibility to society and the community.

After intensely criticizing the prevailing economic system and the situation in the poor countries of the world in his apostolic letter *Evangelii Gaudium* (2013), Pope Francis continued his critique in the encyclical *Laudato si'*, the current social encyclical, published in summer 2015 and sometimes described as the "environmental encyclical". Here, in drastic words, Francis describes the hopeless situation of many millions of people in the countries of the so-called Third World. He deplores the irresponsible use of nature with regard to wastage of resources, the negative consequences of climate change, the disposable culture of rich countries, the deterioration in the living conditions of people in poor countries, the (despite ongoing financial crises) unabated flourishing of financial capitalism, the blind belief in technology ruling the industrial nations, and the everlasting quest for economic growth without showing any consideration for the environment. As a solution, changes are required in production methods and consumer behavior, based on radical change in attitudes and lifestyles.

The market mechanism is not believed to have sufficient potential to protect the environment and a planned economy. Francis demands nothing less than a reconsideration of the basic principles of the economy defining its meaning and aims, backed by an ecological turnaround accompanied by a style of economy and life oriented towards sustainability. For this an understanding is presupposed that freedom is much more than freedom to consume; it is inseparably connected with responsibility. Francis seeks holistic progress and the aim that people may be able to live in peace and dignity, free from the struggle for survival—always keeping in mind the preservation of basic living conditions in the form of a healthy environment and the situation of the poor.

On the basis of a system of values deeply rooted in the Christian faith, the Vatican has, then, in its social encyclicals, adopted a clear position on the fundamental problems of the economy and society. In this book specific issues referring to the social encyclicals, and in particular to *Rerum novarum*, are discussed. The first chapter starts with the time before *Rerum novarum*, when many measures to improve the situation of workers and the poor were also taken by the church. In his article "An Economist's View of the Work of Wilhelm Emmanuel von Ketteler and its Influence on the Encyclical *Rerum novarum*" Daniel Eissrich takes Bishop Ketteler as an outstanding example of the fight against injustice and for the improvement of the disadvantaged. Eissrich introduces the life and thought of Bishop Ketteler, and shows, by comparing Ketteler's writings with passages in *Rerum novarum*, how Ketteler influenced the emergence of the encyclical. Doing so, he also illustrates how Catholic social teaching was by no means a centralized Vatican issue, but was widely influenced by the regional churches.

Besides the principles of personality, subsidiarity and the interest in the common good, one of the central concepts of Catholic social theory is solidarity. The principle of solidarity was developed by the Jesuit Heinrich Pesch, together with Carl von Vogelsang known as the founder of Catholic social theory, in his concept

of solidarism. Pesch saw his mission in life as an active commitment to greater justice, in particular in improving the situation of the workers. Closely related to this were further focal points of his work, the comparison of individualistic capitalism and collectivist socialism, the conflict of the social classes, and the family as the basis of the state. Pesch grasped the family, the state, and private property as the pillars of the social order, indispensable for cultural development. Hans A. Frambach shows that this was the basis for a different perception of national economics. Pesch's economic system, his *solidarism*, stood in the intellectual tradition of *Rerum novarum* and was decisive for the development of the second social encyclical, *Quadragesimo anno*, and following encyclicals. *Solidarism* was a social philosophy that saw the working human being as central to economic life, employing the principle of subsidiarity to determine the role of the state in economic activity, and subordinating economic activity to the social virtues of justice and charity. The central socio-political thrust of Pesch's solidarism is the construction of a strong welfare state based on principles of order, authority and morality. He regarded this as a legal obligation. In this way, Pesch's *solidarism* can be understood as a middle way, mediating between individualism and socialism.

The pope's efforts to find a middle (or third) way between the contradictory approaches of liberalism and socialism was, of course, not a unique venture. From the viewpoint of the history of economic thought it can be seen as one of several attempts to develop the concept of public economy ("Gemeinwirtschaft") as a principle of social development policy. Precisely this is what Karl-Heinz Schmidt analyzes in his contribution to this volume, commenting on the different meanings of the central terms "Gemeinwirtschaft" and "Gemeinsinn" and classifying important German writers on social development at the time of *Rerum novarum*—especially those who leaned toward the churches, namely Franz Hitze, Carl von Vogelsang, Johann Heinrich Wichern, and Victor Aimé Huber.

The ambivalent character of Catholic social doctrine is exemplified in the life of the famous historian and Catholic activist Lord Acton in the article by Frits L. van Holthoon. On the one hand an adherent of old Catholic principles, Acton fought, on the other hand, against the papal claim to secular power. Acton wished the Catholic Church to infuse religious liberty into the daily lives of the common people. He did not understand the modern concept of liberty, meaning freedom from restraint, disregarding moral consequences. Although the Catholic Church cared in *Rerum novarum* for the personal hardships and practical problems of ordinary people, Acton despaired of its doctrinal rigor and absolutist claims.

Further criticism of the social question as answered in *Rerum novarum* came from the Austrian sociologist August Knoll. Assuming a distinction in principle between the religious and moral sphere and the social sphere, Knoll argued that the church was only able to solve the social question on the religious and moral level, not on that of sociology, social technique or economic organization. Günther Chaloupek presents Knoll's arguments about the changing positions of the Catholic Church in history, its ability to adapt to economic and political circumstances, but also his stance among the different approaches to the social question and the debate about Catholic social

doctrine. At the end of his life Knoll took a critical view of the clerical hierarchy. To break through its false pretensions with respect to social doctrine, Knoll calls for a "dualism of the two orders". While clerics have the decisive voice in spiritual matters, the competence rests with laymen in worldly issues.

Describing aspects of the historical background of *Rerum novarum*, including the relation between natural law and Christian anthropology, Peter Schallenberg begins his contribution "125 years *Rerum novarum*—the Theological Perspective" from the viewpoint of Catholic theology. In *Rerum novarum*, as in later social encyclicals, the position of the church vis à vis society, politics and the economy was based on the perceived good for the life for every human being—a holistic concept bonding together the dimensions of the material (or quantitative) and the spiritual (or qualitative). At the center of this perception is the conviction that Christian love can influence the structure of societies. All societal systems and institutions in the world should support the human vocation to receive and to give love. Men and women are believed to be created by God in his own image with an immortal soul binding them to him and his eternal love. Because it is not realistic to transfer this vision to economic life, the church has developed a system of social ethics based on the just development of the person. This development can already be found in *Rerum novarum*, where a third way between pure capitalism and socialism is proposed, containing many ideas of what later became known as social market economy. Schallenberg argues that Catholic social teaching since *Rerum novarum* aims to enable man to live a successful life. Social justice, inclusion, participatory equity and subsidiarity are emphasized as ethically required concepts to fulfill the ideas of Christian anthropology in the market economy.

The influence of *Rerum novarum* in the Netherlands is exemplified by Robert W. J. Jansen in the figure of Johannes Antonius Veraart, an early 20th century Catholic economist committed to parliamentary democracy. Veraart emphasized the distinction between the *realist* and the *ethical* approach, concepts which he had adopted from the German economist Adolph Wagner and the Austrian economist Eugen Philippovich. While the realist approach allowed the investigation of the effectiveness of measures to achieve given objectives, it did not discuss the social desirability or ethics of these objectives. In the "realist" discussion of wages, for example, the wage level was determined on a purely theoretical basis derived from the interaction of supply and demand. Hence the result depended solely on the power of the subjects and the market policies of the parties involved. Ethical considerations, on the other hand, would lead to processes of state intervention like the setting of a minimum wage, immigration policies etc. Although Veraart and his ideas have been largely neglected in Dutch economics, the literature describes him as the "auctor intellectualis" of the Dutch variant of corporatism—i.e. of industrial organization and regulation of relations between labor, capital and the state. In his writings and lectures on corporatism Veraart referred extensively to the encyclicals *Rerum Novarum* and *Quadragesimo Anno*. *Rerum Novarum* was in his view a historical document, a child of its time. Its ideas about humanity and human values were eternal but their application to capitalism was essentially temporary.

Amid the struggles between liberalism and socialism at the turn of the 20th century, *Rerum novarum* sought a middle way for the Catholic Church. At the same time, however, the seeds of a more politically oriented Catholicism also existed, envisaging a society and a state system in which labor and capital would cooperate peacefully in self-governing vocational associations: the corporative state. Although by now almost forgotten, the corporative state was an early 20th century ideal. Again focusing on the Catholic Dutch economist Johannes Antonius Veraart, Andries Nentjes takes up the story of corporatism in the Netherlands from another point of view. With reference to the discussion of the class struggle in *Rerum novarum*, and the demand for its end, Veraart outlined a corporatist economic system, called the "statutory organization of business", which he proposed as an alternative to the market system. In this system, guild-like organizations and businesses uniting employers and workers in a specific industry would make the major economic decisions. The main ideas of this proposal can be found in *Rerum novarum* and *Quadragesimo anno*. Nentjes tells the story of the varying and eventful history of the statutory organisation of business from the time immediately after the First World War until its end in the 1950s, when the corporatist movement was overtaken by the beginnings of the welfare state and the reconstruction of the market economy.

In the USA the critical discussion of the works of Henry George caused a stir. The worker priest Edward McGlynn got into trouble with his church because of the stand he took on behalf of the workers—a position he derived from George. This was reason enough for the church to investigate George's writings and conclusions. A long-lasting and fundamental debate about the role of property, especially landed property, and the issue of justice opened. George saw private property as the prime cause of poverty and called for the absorption for the common good of all profits from property (well known in economic theory under the name of "single-tax"). This was for the church the same as expropriation and a clear case of socialism. Nicolaus Tideman discusses and evaluates these issues in his article on "The Justice and the Economics of *Rerum Novarum* on Land", arguing that, as George suggested at the time of its publication, *Rerum novarum* is weak as a theory both of justice and of economics.

The principle of just taxation of immovable property (real estate) as discussed in *Rerum novarum* was thematically closely connected to Henry George's suggestions. It is the subject of the article by Francesco Forte, Flavio Felice and Elton Beqiraj. After a comprehensive presentation of the concept of property rights as natural rights in *Rerum novarum*, and of George's reaction (he thought that the relevant passages in *Rerum novarum* were written to refute his suggestions), the authors seek to evaluate the different positions by the application of econometric analysis. They estimate the effect of Henry George's taxation of immovable property on GDP along data of OECD countries from 1965 to 2013 and compare it with the position of the social encyclical *Rerum novarum*, which considers immovable property an inviolable right. The authors show that taxation of immovable property is generally in negative relation to GDP growth and hence support the position of *Rerum novarum*.

It is an interesting but at the same time astonishing thesis that Catholic social thought has decisively framed living and working conditions in Europe during large parts of the 20th century, and has done so in a what might be called a secret manner—i.e. that neither the contents nor the protagonists of Catholic social thought are much remembered in contemporary Europe. This thesis is proposed is proposed by André Habisch. He focuses on the emergence of this body of thought in the context of industrialization, and stresses the pioneering role of Christian entrepreneurs like the French textile magnate Léon Harmel and the German Franz Brandts. With their employee-friendly work and activities, based on Christian principles, and their endeavors to "acculturate" the Christian faith into modern society, they showed a wise practical commitment and exemplary leadership that paved the way for a new paradigm of Christian social ethics and even influenced contemporary discussion in both church and society. Many important figures in politics and society—Franz Hitze, Heinrich Brauns, or Heinrich Pesch—were influenced by Catholic social ethics, and this line of thought can without exaggeration be described as an important moral and intellectual tradition, a vessel of social-economic thought and wisdom.

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